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**BEFORE THE ARIZONA CORPORATION COMMISSION****COMMISSIONERS**

Arizona Corporation Commission

**DOCKETED**

AUG 21 2012

GARY PIERCE - Chairman  
BOB STUMP  
SANDRA D. KENNEDY  
PAUL NEWMAN  
BRENDA BURNS

DOCKETED BY

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IN THE MATTER OF THE APPLICATION OF  
MOHAVE ELECTRIC COOPERATIVE,  
INCORPORATED, AN ELECTRIC  
COOPERATIVE NONPROFIT MEMBERSHIP  
CORPORATION, FOR A DETERMINATION OF  
THE FAIR VALUE OF ITS PROPERTY FOR  
RATEMAKING PURPOSES, TO FIX A JUST AND  
REASONABLE RETURN THEREON AND TO  
APPROVE RATES DESIGNED TO DEVELOP  
SUCH RETURN.

DOCKET NO. E-01750A-11-0136

DECISION NO. **73352****OPINION AND ORDER**

DATES OF HEARING:

April 9, 10 and 11, 2012

PLACE OF HEARING:

Phoenix, Arizona

ADMINISTRATIVE LAW JUDGE:

Dwight D. Nodes

APPEARANCES:

Mr. William P. Sullivan and Mr. Michael A. Curtis,  
CURTIS, GOODWIN, SULLIVAN, UDALL &  
SCHWAB, P.L.C., on behalf of Mohave Electric  
Cooperative, Incorporated; and

Ms. Bridget A. Humphrey and Mr. Brian Smith, Staff  
Attorneys, Legal Division, on behalf of the Utilities  
Division of the Arizona Corporation Commission.

**BY THE COMMISSION:****Background**

On March 30, 2011, Mohave Electric Cooperative, Incorporated ("MEC" or "Company") filed with the Arizona Corporation Commission ("Commission") an application for a determination of the fair value of its property for ratemaking purposes, to fix a just and reasonable return thereon, and to approve rates designed to develop such return. With its application, MEC filed supporting schedules and the direct testimony of Carl N. Stover and Michael W. Searcy.

MEC is an Arizona Electric Cooperative Nonprofit Membership Corporation and a public service corporation pursuant to Article 15, § 2, of the Arizona Constitution. The Company provides

1 electric service to approximately 38,500 customers to areas within Mohave, Coconino, and Yavapai  
 2 counties. MEC's current rates were established in Decision No. 57172 (November 29, 1990),  
 3 including a base cost of power of \$0.065798 for its Purchased Power Cost Adjustment ("PPCA")  
 4 mechanism, which was authorized in Decision No. 50266 (September 18, 1979). The Commission  
 5 subsequently approved for MEC Unbundled and Standard Offer Service Tariffs in Decision No.  
 6 61308 (December 31, 1998); a Renewable Energy Standard plan and tariffs in Decision Nos. 70167  
 7 (February 27, 2008), 71407 (December 8, 2009), and 72092 (January 26, 2010); and a Net Metering  
 8 tariff in Decision No. 71461 (January 26, 2010), as amended in Decision No. 72097 (January 20,  
 9 2011). (Application, at 2-3.)

10 In Decision No. 63868 (July 25, 2001), the Commission approved MEC's conversion from an  
 11 All Requirements Member ("ARM") of Arizona Electric Power Cooperative, Inc. ("AEPCO") to a  
 12 Partial Requirements Member ("PRM") of AEPCO. The Commission approved the Third  
 13 Amendment to the PRM Agreement with AEPCO in Decision No. 72055 (January 6, 2011). (*Id.*)

#### 14 **Procedural History**

15 On April 27, 2011, MEC filed a letter stating that the Company agreed to waive the time  
 16 clock for determining the sufficiency of its rate application.

17 On May 27, 2011, MEC filed Supplemental Direct Testimony and Schedules with Calendar  
 18 Year 2010 data.

19 On June 27, 2011, the Commission's Utilities Division ("Staff") filed its Letter of Sufficiency  
 20 indicating that MEC's application satisfied the requirements of Arizona Administrative Code  
 21 ("A.A.C.") R14-2-103 and classifying the Company as a Class A utility.

22 On June 27, 2011, Staff filed a Proposed Procedural Schedule for Filing Dates.

23 On July 1, 2011, Staff filed Revised Proposed Schedule for Filing Dates which recommended  
 24 a compressed schedule compared to the original proposed schedule.

25 On July 6, 2011, MEC filed a response to Staff's proposed schedule.

26 By Procedural Order issued July 15, 2011, the evidentiary hearing was scheduled to  
 27 commence on March 19, 2012, and other procedural filing deadlines were established.

28 On September 22, 2011, MEC filed an affidavit of publication and certification of mailing of

1 notice of the application and hearing date.

2 On November 18, 2011, Staff filed a Request for Extension of Time to File Testimony and for  
3 Waiver of Time Clock. Staff stated that it did not have sufficient time to meet the November 30,  
4 2011, testimony filing deadline due to the need for additional information from MEC. Staff proposed  
5 an alternative procedural schedule that included rescheduling the hearing date to begin May 3, 2011.

6 On November 22, 2011, MEC filed an Opposition to Staff's Request for Extension of Time.  
7 The Company claimed that it had timely responded to Staff's requests for information and that any  
8 delays were due to Staff's actions. MEC suggested a two-week extension of Staff's filing deadline,  
9 but maintaining the March 19, 2011, hearing date.

10 On November 22, 2011, MEC and Staff initiated a telephonic conference call with the  
11 Administrative Law Judge to discuss the extension request. During the conference call, the parties  
12 tentatively agreed to an alternative procedural schedule, subject to final confirmation of exact dates.

13 On November 30, 2011, MEC and Staff filed a Joint Revised Procedural Schedule.

14 On December 1, 2011, a Procedural Order was issued rescheduling the hearing to commence  
15 on April 9, 2012; reserving the original March 19, 2012 hearing date for public comment; and  
16 establishing revised filing dates for pre-filed testimony.

17 On January 12, 2012, Staff filed the direct testimony of Jerry Mendl, Candrea Allen, Margaret  
18 (Toby) Little, and Crystal S. Brown.

19 On January 31, 2012, Staff filed a Motion for Extension of Time, requesting a one-day  
20 extension for filing its direct rate design testimony.

21 On February 1, 2012, Staff filed the direct rate design testimony of Bentley Erdwurm.

22 On February 23, 2012, MEC filed the rebuttal testimony of Mr. Searcy and Mr. Stover. The  
23 Company also requested a one-day extension of time to file the rebuttal testimony of J. Tyler Carlson.

24 On February 24, 2012, MEC filed the rebuttal testimony of Mr. Carlson.

25 On March 13, 2012, Staff filed the surrebuttal testimony of Mr. Mendl, Ms. Allen, Ms.  
26 Brown, and Mr. Erdwurm.

27 On March 19, 2012, the hearing was convened for the purpose of taking public comment. No  
28 members of the public appeared at that time to offer comments.

1 On March 27, 2012, Staff filed an Errata to Ms. Brown's testimony and attached a schedule  
2 that was omitted inadvertently.

3 On March 30, 2012, MEC filed the rejoinder testimony of Mr. Stover, Mr. Searcy, and Mr.  
4 Carlson.

5 On April 5, 2012, MEC and Staff filed summaries of their witnesses' testimony.

6 On April 6, 2012, the prehearing conference was conducted to discuss the scheduling of  
7 witnesses and other procedural matters.

8 The evidentiary hearing convened, as scheduled, on April 9, 2012, and continued on April 10  
9 and 11, 2012. At the conclusion of the hearing, a briefing schedule was established by agreement of  
10 the parties.

11 On May 11, 2012, MEC and Staff filed their initial post-hearing briefs. MEC also filed a late-  
12 filed exhibit with information requested at the hearing by the Administrative Law Judge.

13 On June 4, 2012, MEC and Staff filed their reply briefs.

#### 14 **Revenue Requirement**

15 In its application, MEC requested an overall revenue increase of \$2,980,757 (approximately  
16 3.8 percent) over test year revenues. Ultimately, MEC and Staff agreed that the Company should  
17 receive an overall revenue increase of \$3,061,529 (approximately 4.02 percent).

18 The total \$79,129,535 revenue requirement supported by both MEC and Staff is based on an  
19 adjusted calendar 2010 test year original cost rate base ("OCRB") and fair value rate base ("FVRB")  
20 of \$48,083,871; adjusted test year revenues of \$76,068,006; adjusted test year expenses of  
21 \$75,523,583; adjusted test year operating margin (before interest on long-term debt) of \$544,423; and  
22 a rate of return on FVRB of 7.50 percent. (Ex. MEC-4, Sched. MWS-5; Ex. S-5, Schedules. CSB-1,  
23 CSB-2, CSB-3.)

24 Although MEC and Staff are in agreement on the overall revenue requirement, there remain a  
25 number of significant disputed issues that are addressed below.

#### 26 **Rate Design**

27 The Company and Staff came to agreement on most rate design issues, with the exception of  
28 the residential customer charge and the Large Commercial and Industrial Time of Use ("LC&I

TOU”) rate, subject to final revenue allocation and the determination of a base cost of power. (Ex. MEC-4, Sched. MWS-7.)

The Company and Staff resolved their differences regarding the differential between the standard residential customer charge and the TOU customer charge. Staff initially advocated a \$3.00 differential but agreed with the Company’s proposed \$5.00 differential based on the cost of meters used to serve customers under the two rate schedules.<sup>1</sup>

The parties also agreed prior to hearing with respect to MEC’s summer peak periods for the residential TOU rate. Both the Company and Staff agree that the summer (April 16 to October 15) residential TOU peak period for Option 1 (peak on weekdays only) should be 12:00 p.m. (noon) to 7:30 p.m. (7.5 hours), and that the Option 2 (peak applies weekdays and weekends) peak period should be 2:00 p.m. to 7:30 p.m. (5.5 hours). (Ex. MEC-3, at 24; Ex. S-9, at 6-7.) The shorter peak period for Option 2 is intended to provide a greater incentive to use the TOU rate that includes weekends.

MEC and Staff further agreed that the residential TOU rate should include an inclining block rate structure with first block pricing for the first 400 kWh of monthly on-peak and off-peak kWh. (Ex. S-9, at 7-8.) The TOU inverted block structure per kWh differential would match the regular residential rate of 15 mills per kWh (1.5 cents per kWh) between adjacent blocks, for a total differential of 3.0 cents per kWh. (*Id.* at 9.)

#### **Residential Customer Charge**

As described by Staff witness Bentley Erdwurm, the concept of cost allocation involves the assignment of joint costs of providing service to various classes or groups of customers. (Ex. S-8, at 6.) Utility companies are typically required to conduct and present a fully allocated cost of service study (“COSS”) as part of a rate application which serves as the basis for allocating costs and for use in designing rates. Mr. Erdwurm stated that the purpose of a COSS is to assign each cost component to respective customer classes as a means of approximating a total cost to serve each class. (*Id.* at 6-

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<sup>1</sup> Staff witness Erdwurm testified that the difference in the costs of a standard residential meter (\$125) and a TOU meter (\$449) justified the \$5.00 differential proposed by MEC. (Ex. S-9, at 8-9.)

7.) A cost component may be an individual rate base or expense account; a portion of a single account; or a composite of accounts. (*Id.* at 7.)

According to the COSS prepared by MEC, a residential customer charge of \$18.56 is justified, excluding the Company's wires capacity related component (additional \$11.44). (Ex. MEC-1, Attach. 3, Sched. G-6.0.) The Company proposes to increase the current residential customer charge of \$9.50 per month to \$16.50, which it claims still results in a subsidy of more than \$2.00 compared to the COSS results.

The Company claims that although customers with little or no monthly usage would experience a higher rate impact under its rate design proposal, customers with 400 kWh of usage would see an increase of only 0.54 percent, while customers with monthly usage of 800 and 1,000 kWh would experience rate decreases of 0.46 percent and 0.69 percent, respectively. (Ex. MEC-3, Sched. 8.)<sup>2</sup>

MEC witness Michael Searcy stated that monthly customer bills with less than 400 kWh of usage are likely due to absences (for vacation or second homes), or due to a vacant home, rather than reflecting an ongoing level of usage at such a minimum level. (Ex. MEC-3, at 21.) Company witness Carlson indicated that it would be very difficult for a residence to consume less than 400 kWh in a month even with minimal appliance usage. (Ex. MEC-8, at 4.) Therefore, according to MEC, rate impact concerns for extremely low monthly usage bills would not be cause for concern.

MEC claims that its proposal to increase the monthly customer charge to \$16.50 would result in cost recovery that is much closer to its cost of service, would minimize the subsidy provided to the transient accounts with little or no usage, and would eliminate the need for a separate decoupling mechanism.

Staff originally recommended increasing the current \$9.50 residential customer charge to \$12.00. However, in his surrebuttal testimony Mr. Erdworm proposed setting the customer charge at \$13.50. (Ex. S-9, at 3.) Staff opposes the Company's proposal to increase the customer charge to

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<sup>2</sup> Average usage customers (860 kWh) and median usage customers (637 kWh) would experience rate decreases of 0.54 percent and 0.19 percent, respectively, under MEC's proposed rate design. (*Id.*)

1 \$16.50 on the basis that higher customer charges may have adverse impacts on basic needs customers  
2 and may be contrary to the provision of incentives for the efficient use of energy. (*Id.*)

3 Staff concedes that even if the customer charge is increased to MEC's proposed level of  
4 \$16.50, it will not have a significant impact on average and median usage customers. Staff also  
5 agrees that it is appropriate to move rates closer to actual cost of service in situations where it would  
6 have a minimal impact on customers. (Tr. 575-576.) However, Staff noted that even though the  
7 overall dollar impact is not significant, customers with little or no usage would experience an  
8 increase of over 70 percent under MEC's proposal, compared to approximately 40 percent under  
9 Staff's recommendation. Mr. Erdwurm suggested that a more gradual increase of the customer  
10 charge would be consistent with past Commission decisions. (Tr. 568.)

11 We agree with MEC's proposal to increase the residential customer charge to \$16.50.  
12 Although it represents a substantial increase to the customer charge when viewed in isolation, the  
13 actual rate impact on average and median usage customers is negligible. In fact, as noted above,  
14 those customers would actually see rate decreases under the Company's rate design proposal. We  
15 believe that the most appropriate time to make a significant movement in the customer charge that is  
16 closer to cost of service is in a situation, as is presented in this case, in which the vast majority of  
17 customers will experience a minimal effect as a result of such action. Moreover, the increase of the  
18 customer charge to \$16.50 will lessen the subsidization of part-time residents that exists under  
19 MEC's current rates. We will therefore adopt MEC's residential customer charge of \$16.50 and the  
20 Company's overall rate design.

21 As approved, a standard-rate residential customer with average monthly usage of 860 kWh  
22 would experience a base rate decrease of \$0.55 (0.54 percent), from the current bill of \$101.41 to  
23 \$100.87. A standard-rate residential customer with median monthly usage of 637 kWh would  
24 experience a base rate decrease of \$0.15 (0.19 percent), from the current bill of \$77.58 to \$77.43.  
25 (Ex. MEC-4, at Sched. MWS-8.) The residential summary schedule is attached as Attachment A.

26 **Large Commercial & Industrial TOU Rate**

27 MEC serves three customers under its LC&I TOU rate which currently includes an on-peak  
28 demand charge, a customer charge, and an energy charge. The Company has proposed to increase

1 the on-peak demand charge from \$13.50 per kW-month to \$23.00 per kW-month, and to add a new  
2 non-coincident peak ("NCP") demand charge of \$2.99 per month.

3 Staff witness Erdwurm explained that the purpose of adding the NCP demand charge is to  
4 ensure that all customers, including those using power primarily during off-peak periods, contribute  
5 to the recovery of some demand-related costs. (Ex. S-8, at 4.) Staff agrees that the Company's  
6 proposal is an improvement over the current rate structure because it helps eliminate the "free-rider"  
7 problem by recognizing that "upstream" costs (incurred closer to generation sources) are driven more  
8 by the level of on-peak demand, whereas "downstream" costs (incurred further from generation and  
9 closer to the end use customer) are more driven by NCP demand (localized non-coincident peaks).  
10 (*Id.*)

11 Although Staff agrees that MEC's new LC&I TOU rate should be applied to new customers,  
12 Staff believes that the three existing customers taking service under this rate schedule should be  
13 grandfathered until the next rate case because the Company's new rate structure would result in an  
14 increase to the existing customers of more than 40 percent. (Ex. S-9, at 9-10.)

15 In his rebuttal testimony, MEC witness Searcy stated that the Company would be amenable to  
16 phasing in the new LC&I TOU rate for the existing customers over three years to mitigate the rate  
17 impact on those customers. (Ex. MEC-3, at 30.) Staff opposes the phase-in of the higher on-peak  
18 demand charges for the existing customers based on Staff's claim that the impact on MEC's revenues  
19 is trivial and does not justify the administrative burden of such a phase-in. (Ex. S-9, at 11; Tr. 586-  
20 590.)

21 We agree with MEC that the new LC&I TOU rate should apply to new and existing  
22 customers alike. Staff concedes that the three existing customers have been receiving a "windfall"  
23 for many years by not being required to contribute to the NCP costs placed on the Company's  
24 system. (Tr. 588-589.) Moreover, absent a remedy in this case, the costs placed on the system by the  
25 three existing customers would be borne by other customers. Although we recognize the revenue  
26 impact to MEC would be relatively minor if Staff's recommendation were to be adopted, it is  
27 appropriate to end the current subsidy at this time so as not to perpetuate the existing inequity. We  
28



1 therefore adopt MEC's proposal on this issue, without the phase-in for the three existing customers  
2 that was suggested as an alternative by MEC, but opposed by Staff.

3 **Residential Class Revenue Responsibility**

4 According to MEC, the COSS shows that the residential class is substantially under-earning  
5 as a class compared to other customer classes. As a result, the Company proposed that revenues from  
6 the residential class be increased by 4.16 percent, slightly above the system wide increase of 4.02  
7 percent. (Ex. MEC-4, at 12-13; Tr. 30-31.)

8 Although the dollar impact is relatively small, Staff recommends that the residential  
9 percentage increase not exceed the system percentage increase, "unless compelling cost  
10 considerations indicate otherwise." (Ex. S-8, at 5.) Mr. Erdworm stated that because the differences  
11 are minor, there is no practical reason why the residential class revenue responsibility should not be  
12 capped. (*Id.*)

13 MEC witness Searcy responded that Staff's cap recommendation is unsupported by the  
14 record; does not recognize the small amount of revenue responsibility to be shifted; fails to take the  
15 opportunity to make inter-class revenue shifts when the overall increase is minimal; and, if followed  
16 in the future, would forever preclude closing the revenue responsibility gap between the residential  
17 class and other classes. (Ex. MEC-4, at 12.) Mr. Searcy testified that the COSS supports an even  
18 greater allocation of responsibility to the residential class and Staff's recommended cap is "arbitrary."  
19 (*Id.*)

20 We agree with MEC that there is no compelling reason in this case to cap the revenue  
21 responsibility allocated to the residential class. Although there may be valid reasons in other  
22 situations to limit the amount of revenue responsibility assigned to a given class (*e.g.*, where  
23 significant rate increases would be experienced by a given customer class), in this case the record  
24 clearly indicates that the majority of residential customers will experience little or no rate impact as a  
25 result of this Decision. Moreover, as we stated with respect to the customer charge, it is appropriate  
26 to attempt to lessen existing class subsidies when the overall rate changes are minimal. We therefore  
27 adopt MEC's position on this issue.

1 **Rules and Regulations**

2 MEC and Staff are generally in agreement with respect to the Company's proposed service  
3 rules and regulations that were proposed in this case. However, in its Exceptions MEC indicated that  
4 it had inadvertently agreed to include A.A.C. R14-2-211 E(4), which requires a personal site visit  
5 before terminating service, in its proposed service rules and regulations. MEC points out that with  
6 the deployment of advanced metering technology and upgrades to its system, remote disconnections  
7 are possible. With the exception of several modifications recommended by Staff, and to which MEC  
8 subsequently agreed, the only remaining contested issues involve the Company's prepaid service  
9 proposal and its request to include transformer costs as part of line extension costs imposed on  
10 customers outside of residential subdivisions. With these three exceptions, MEC proposes that the  
11 service rules and regulations tariffs set forth in its application, with the modifications contained in  
12 Staff witness Candrea Allen's testimony, should be approved by the Commission. (Ex. MEC-1,  
13 Attach. 3, Section P; Ex. S-2, at 7-8.) We agree with the parties that the Company's proposed service  
14 rules and regulations tariffs, with the agreed-upon modifications recommended by Staff, should be  
15 approved, however we will waive the requirement of a personal site visit found in A.A.C. R14-2-211  
16 E(4).

17 **Line Extension Policies**

18 In its application, MEC proposed amending its line extension policies to eliminate the set free  
19 footage allowance and substitute a fixed dollar allowance for line extension requests. Within a  
20 subdivision, MEC currently offers a 500-foot allowance for single-phase service and a 225-foot  
21 allowance for three-phase service. The equivalent dollar value of the allowances under the current  
22 policy is approximately \$2,390 and \$5,171, respectively. (Ex. S-2, at 6.) MEC's proposal in this case  
23 is to allow \$800 for single-phase service and \$2,500 for three-phase service within subdivisions. The  
24 free footage equivalent of the proposed dollar allowances is approximately 167 feet and 109 feet,  
25 respectively. (*Id.*) For line extension requests outside a subdivision, MEC currently offers a 625-foot  
26 allowance for single-phase service and a 225-foot allowance for three-phase service. The equivalent  
27 dollar value of the allowances under the current policy is approximately \$5,913 and \$3,195,  
28 respectively. (*Id.*) MEC's proposal in this case is to allow \$1,750 for single-phase service and \$2,500

1 for three-phase service outside of subdivisions. The free footage equivalent of the proposed dollar  
2 allowances is approximately 132 feet and 108 feet, respectively. (*Id.*)

3 Ms. Allen stated that, according to the Company, line extension allowances based on a set  
4 footage amount does not recognize factors such as inflation, deflation, and increased cost of  
5 materials; whereas set dollar allowances would better reflect adjustments during periods of inflation  
6 and deflation. Staff agrees with MEC's proposed line extension policy (except for the  
7 aforementioned transformer issue), which would allow a fixed dollar amount for line extensions  
8 rather than the current free footage allowance because, according to Staff, the line extension  
9 allowance would be beneficial to customers by providing greater flexibility during periods of  
10 economic fluctuations. (Ex. S-2, at 6.)

11 In a recent case (Docket No. E-01787A-11-0186) involving Navopache Electric Cooperative,  
12 Inc. ("Navopache"), we declined to adopt suggested changes to Navopache's line extension policies  
13 due to the lack of outreach to members to justify changing its existing extension policies. In that  
14 case, we found that, although Navopache's elected Board should be accorded a certain amount of  
15 discretion regarding its policies, the lack of outreach to members justified retaining the existing  
16 extension policies. We noted that the Commission had previously received significant criticism for  
17 eliminating free footage allowances for other companies without carefully considering the overall  
18 impact of those decisions, and we did not wish for Navopache to make the same mistake.

19 The record in this case does not indicate that MEC attempted to reach out to members or  
20 obtain input from other entities that may be affected by its proposed policy changes. (See, Ex. MEC-  
21 1, Attach. 3, at 32.) We believe the lack of outreach and input into the proposed policy changes noted  
22 in the Navopache case supports reaching the same conclusion in this case, and we will therefore  
23 preserve MEC's existing line extension policies unless and until MEC has demonstrated to our  
24 satisfaction that it has performed sufficient outreach to its members and that revisions to the line  
25 extension policies are in the public interest.

#### 26 **Transformer Costs for New Connections**

27 As part of its revised line extension policy, MEC has proposed that customers seeking line  
28 extensions outside of subdivisions should be required to pay for transformers constructed to serve

1 them, just as developers are required to do so for new subdivisions. The Company asserts that  
2 transformers are part of required plant investment whether they are installed for a subdivision or an  
3 individual lot. (Ex. MEC-3, at 10.) MEC also claims that because it is a rural electric cooperative, in  
4 low density areas individual customers usually require a separate transformer. The Company  
5 contends that the average per customer transformer plant investment is often higher outside of  
6 subdivisions and therefore customers requesting service in such areas should be financially  
7 responsible for those costs in order to avoid subsidization from other customers. (*Id.* at 11.) In  
8 rebuttal testimony, Mr. Searcy proposed an alternative that would limit individual customer  
9 responsibility to 50 percent of the cost of the transformer. (*Id.*)

10 Staff opposes MEC's proposal to recover transformer costs from non-subdivision customers,  
11 consistent with prior Staff recommendations in recent cases involving Arizona Public Service  
12 Company (Docket No. E-01345A-11-0207) and Navopache Electric Cooperative, Inc. (Docket No.  
13 E-01787A-11-0186). (Ex. S-2, at 7; Ex. S-3, at 1-2.) Staff claims that by excluding transformer costs  
14 for non-subdivision line extensions, the equivalent footage allowances for single-phase and three-  
15 phase service extensions would increase to 185 feet and 176 feet, respectively, from the respective  
16 132 feet and 108 feet allowances under the Company's proposal. (Ex. S-2, at 7.) Staff also opposes  
17 MEC's alternative proposal to cap recovery at 50 percent of the transformer costs for the same  
18 reasons. (Ex. S-3, at 1-2.)

19 As stated above, we believe it is appropriate to preserve MEC's existing line extension  
20 policies unless and until MEC has demonstrated to our satisfaction that it has performed sufficient  
21 outreach to its members and revisions to the line extension policies are in the public interest.

22 **60-Day Limit for Existing Line Extension Estimates**

23 MEC and Staff agreed that the notice set forth in Mr. Searcy's rebuttal testimony, to allow  
24 customers with line extension estimates under the Company's existing line extension tariff up to 60  
25 days from the date of this Decision to commence construction, should be adopted. (Ex. MEC-3, at 11-  
26 12; Tr. 468-69.)

27 Given our finding that MEC's existing line extension policies should remain in effect, it is not  
28 necessary to rule on this issue.

1        **Prepaid Metering Service**

2        In its application, MEC requested approval of a prepaid service tariff. (Ex. MEC-1, Attach. 3,  
3        Section P.) According to MEC witness J. Tyler Carlson, the Company's members are anxious for  
4        prepaid service to be implemented because it provides a means of obtaining electric service without  
5        the necessity of a customer providing a deposit, having good credit history, or being in good standing  
6        with MEC for 12 months. (Ex. MEC-7, at 7.) As proposed by MEC, prepaid service would be  
7        available to new and existing customers who would otherwise take service under the Company's  
8        residential tariff Schedule R. (Ex. MEC-8, at 5.) It would not be available to TOU customers, net  
9        metering customers, customers on a levelized billing plan, or to critical needs customers (customers  
10       that have provided a medical need notification that electrical service is critical to their health).<sup>3</sup> (*Id.*)

11       Mr. Carlson indicated that prepaid service should now be an option for MEC because the  
12       Company is installing automated metering infrastructure ("AMI") equipment that is integrated with  
13       its customer information system ("CIS") which allows real time communications between the CIS  
14       and customer meters. (*Id.*) He stated that "disconnect collars" can be installed at the meter that can  
15       be controlled via MEC's Power Line Carrier connectivity. (*Id.*)

16       Under the Company's proposal, customers would be able receive electrical service by paying  
17       MEC's \$40.00 Establishment Fee plus a prepaid amount of not less than \$40.00. (*Id.* at Ex. JTC-2.)  
18       Customers would be able to monitor the account and make payments by calling the Company's  
19       Integrated Voice Recognition ("IVR") system or online through MEC's website. (*Id.* at 6.)  
20       Customers would receive balance notifications by email, text or phone message when the account  
21       balance drops below a specified amount.<sup>4</sup>

22       Disconnection of prepaid tariff customers would not be subject to the Commission's  
23       termination rules (MEC seeks a waiver of the Commission's termination of service rules (A.A.C.  
24       R14-2-211)) for purposes of implementing the prepaid service tariff; however, as proposed by the  
25       Company, disconnection of prepaid customers would only occur during normal business hours, and  
26       excluding holidays and weekends. Remote disconnection would occur the next business day after the

27       <sup>3</sup> The Company added critical needs customers to the list of customers that would not be eligible for pre-paid service in  
28       response to concerns expressed by Staff and AARP. (Tr. 296.)

<sup>4</sup> October through February (\$25 or less); March through June (\$35 or less); July through September (\$50 or less). (*Id.*)

1 customer's balance reaches zero or less. (*Id.*) Following disconnection, customers may re-establish  
 2 service by bringing the pre-paid balance to at least \$20 and pushing a button on the meter to restart  
 3 service. If service is not re-established by the end of the billing cycle, but not less than 10 days after  
 4 disconnection, the account would be closed and customers would again be required to pay the  
 5 Establishment Fee to re-start service. (*Id.* at 7.) However, no separate disconnect or reconnect fee is  
 6 required; nor is a deposit required.

7 Ms. Allen testified that approval of MEC's pre-paid service proposal would be premature, at  
 8 this time, because the Company did not provide adequate information regarding the service. Staff  
 9 recommends that MEC "should engage in discussions with stakeholders and other interested parties  
 10 to further evaluate and assess its proposal." (Ex. S-2, at 5.) Staff's position is that if MEC wishes to  
 11 pursue such a tariff, it should file an application in a separate docket. (*Id.*)

12 In the event the Commission determines that MEC's prepaid service is timely and appropriate  
 13 in this case, Staff recommends that the following conditions be applied to the service:

- 14 • MEC should participate in stakeholder meetings in an effort to improve its  
 15 prepaid metering service specifically for its income restricted customers.
- 16 • MEC should file a request for the appropriate waivers of the  
 17 Commission's rules including, but not limited to, disconnection and  
 18 metering. However, disconnection waivers should not be granted with  
 19 respect to extreme weather events (A.A.C. R14-2-201.46) or conditions  
 20 and customers specified under A.A.C. R14-2-211.A.5, and/or for those  
 21 customers under appropriate circumstances but beyond the scope of  
 22 A.A.C. R14-2-21.A.5.
- 23 • MEC should file for Staff review of its proposed Prepaid Metering  
 24 Agreement, and any promotional/advertising material to be used, prior to  
 25 implementation.
- 26 • MEC should develop for Staff's review, prior to implementation,  
 27 information to be given to potential prepaid metering customers that  
 28 provides information detailing the classes of customers who qualify for  
 prepaid metering, the customers for whom prepaid metering is reasonable  
 and appropriate, and the rules and requirements of the prepaid metering  
 option (to be provided prior to signing the proposed Prepaid Metering  
 Agreement). The recommended documentation should be signed and/or  
 initialed and dated as being read and understood by the customer prior to  
 the Prepaid Metering Agreement being signed by the customer.

- 1 • MEC should be required to file a prepaid metering tariff that includes the  
2 daily rates for the charges specified in the proposed Standard Offer  
3 Residential Service Tariff.
- 4 • MEC should be required to file, as a compliance item, a revised RES  
5 Tariff that includes a section for prepaid metering customers that indicates  
6 the daily REST surcharge that would be charged. The method for  
7 calculating the daily REST surcharge for prepaid metering customers  
8 should be the REST monthly maximum approved by the Commission  
9 divided by 30 days.
- 10 • MEC should be required to file in this docket an annual report with the  
11 following information:
  - 12 • The number of prepaid metering customers per month;
  - 13 • The number of disconnects per account each month,  
14 specifying the number of low-income disconnects;
  - 15 • The number of prepaid customers that have been  
16 disconnected for 24 hours or more (in 24-hour increments)  
17 and the number of accounts with repeated disconnects;
  - 18 • A summary of any unforeseen issues that could impact the  
19 implementation of, or the future progress of, the prepaid  
20 metering option and recommendations on ways to improve  
21 these potential issues; and
  - 22 • The number of customer complaints specific to prepaid  
23 metering. (Ex. S-3, at 2-3.)

24 After the filing of Staff's surrebuttal testimony, Mr. Carlson's rejoinder testimony addressed  
25 many of the concerns expressed by Staff with respect to the prepaid service. Attached to his  
26 testimony was a revised prepaid service tariff, as well as a revised Prepaid Service Agreement that  
27 the Company would require to be signed prior to establishing service under the tariff. (Ex. MEC-8,  
28 Exs. JTC-2 and JTC-3.) At the hearing, Ms. Allen conceded that the Company made a good faith  
effort to address Staff's concerns, and that there was nothing unacceptable to Staff in the revised  
tariff and agreement. (Tr. 500-501.) Although Staff continues to advocate for the filing of a proposed  
tariff in a separate docket, Ms. Allen agreed that if the Commission determines it is appropriate to

1 implement at this time, there is nothing in the revised tariff and agreement that would delay  
2 implementation. (*Id.* at 538-539.)

3 We find that it is appropriate to approve MEC's proposed Prepaid Service Tariff to allow the  
4 Company to begin offering the service to eligible residential customers as part of a pilot program, and  
5 subject to certain conditions. We agree with the MEC that the best means of determining whether  
6 this optional tariff is just and reasonable in the long term is to allow the Company to gain real world  
7 experience with the tariff. Although MEC has addressed many of Staff's concerns through its revised  
8 filings attached to Mr. Carlson's rejoinder testimony, we believe the reporting requirements must also  
9 be implemented to allow Staff and the Commission to monitor experiences of the Company and its  
10 customers.

11 In addition, approval of the Prepaid Service Tariff will be subject to amendment by the  
12 Commission, following notice and an opportunity to be heard, if it is determined subsequently  
13 through a generic investigation of prepaid service, or by an Order issued in another proceeding, that  
14 MEC's service is not in the public interest. We wish to make clear that absent the conditional nature  
15 of this approval, our determination that the tariff is just and reasonable may be different.

16 We will therefore approve, on a conditional, experimental basis, MEC's Prepaid Service  
17 Tariff and Prepaid Service Agreement as set forth in the attachments to Mr. Carlson's rejoinder  
18 testimony, and as attached hereto as Attachment B.

19 For purposes of implementing the tariff, MEC will be granted a waiver from compliance with  
20 the applicable provisions of the Commission's rules governing Establishment of Service (A.A.C.  
21 R14-2-203); Billing and Collection (A.A.C. R14-2-210); and Termination of Service (A.A.C. R14-2-  
22 211).

23 In addition, the informational material developed by the Company to market the service is  
24 reasonable (Attachment C hereto), subject to any additional modifications that Staff deems necessary.

25 Finally, we direct MEC to file on an annual basis, beginning September 2013 for the prior 12-  
26 month period, the following information:

- 27 • The number of prepaid metering customers per month;
- 28



- The number of disconnects per account per month, specifying the number of low-income customers (if the Company has the ability to track low-income data);
- The number of prepaid metering customers that have been disconnected for 24 hours or more (in 24-hour increments) and the number of accounts with repeated disconnections per month; and
- The number of customer complaints specific to prepaid metering, including a description of the types of complaints received.

#### **Base Cost of Power and Purchased Power Prudency Audit**

Prior to July 25, 2001, MEC was a full requirements member of Arizona Electric Power Cooperative ("AEPCO"). After that date, pursuant to Decision No. 63868, MEC converted to a partial requirements member ("PRM") of AEPCO.

In this proceeding, Staff witness Jerry Mendl undertook an audit of MEC's procurement process for purchased power expenses since it became a PRM to: identify any deficiencies in the procurement process; determine the prudence of purchases made by MEC since it became a PRM; make recommendations regarding the prudence of costs allowed for recovery; make recommendations to improve the Company's adjustor mechanism; and determine the base cost of power. (Ex. S-6, at 1.) As a result of his investigation, Mr. Mendl ultimately concluded that although actual eligible purchased power costs were adequately documented from August 2001 through December 2010, "it is inconclusive whether MEC's policies of power supply planning and implementation being implemented prior to 2010 are reasonable and appropriate." (Ex. S-7, at 27.) The basis of his conclusion is that while MEC eventually provided documentation to support the costs incurred in purchasing power during that period, the documentation "did not address whether MEC had an appropriate power procurement process, including MEC's organization and power planning and procurement approaches, prior to 2010." (*Id.* at 5-6.)<sup>5</sup>

MEC concedes that it did not have a written policy in place prior to 2010 regarding purchased power policies and practices. (Tr. 136-138.) However, MEC disputes Staff's recommendation that the Commission find inconclusive whether the Company's power supply planning and

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<sup>5</sup> With respect to the prudence of MEC's purchased power costs between July 25, 2001 and December 31, 2006, Mr. Mendl initially recommended that the Commission impose a prudence adjustment of \$1,946,00 (one percent of MEC's purchased power costs during that period) due to the lack of information provided by the Company, but he subsequently dropped that recommendation following MEC's agreement to provide documentation for the 2001 to 2006 period. (Ex. S-6, at 26-27; Ex. S-7, at 2-3.)

1 implementation prior to 2010 were reasonable and appropriate. MEC witness Carl Stover expressed  
2 concern that attaching an “inconclusive” label to the pre-2010 policies and practices may leave an  
3 open issue that “could resurface down the road.” (*Id.* at 140.)

4 We believe that, from an auditing perspective, Staff’s recommendation is appropriate based  
5 on the lack of internal written policies and procedures governing purchased power costs. Staff  
6 revised its recommendation regarding the imposition of a penalty once it was able to reconcile the  
7 purchased power costs with adequate documentation and, as such, no additional remedy is now being  
8 recommended by Staff related to the Company’s initial failure to provide supporting documentation  
9 for those costs.

10 Although we agree with Staff that it would extremely difficult, if not impossible, for an  
11 auditor to affirmatively conclude that MEC’s practices and procedures were reasonable and prudent  
12 during a period of nearly a decade in which the Company had no written procedures, the issue has  
13 effectively been rendered moot by MEC’s implementation in 2010 of written policies for purchased  
14 power. Therefore, we do believe it is necessary at this time to make a specific finding with respect to  
15 Staff’s recommendation on this issue.

16 **Spot Market Purchase Criterion**

17 MEC and Staff agree that the Company’s purchased power plan should not place an absolute  
18 limit on the amount of power MEC can purchase on the spot market. (Tr. 140; 336.) However,  
19 because one criterion in the plan is that not more than a given percentage of the Company’s load  
20 should be exposed to the spot market, Staff is concerned that it may not be clear to MEC’s  
21 management that this stated percentage should not be taken as an absolute cap on spot purchases.  
22 (Ex. S-6, at JEM-2.) Staff recommends that the plan be clarified to indicate that the specific  
23 percentage of spot purchases is only a guideline, not a cap.

24 MEC contends that its management is aware that the plan’s percentage on spot purchases is  
25 not absolute, as Mr. Stover testified that the criterion “reflects a point of reference that the Board  
26 expects management to provide a specific rationale for exceeding...” (Ex. MEC-6, at 6.) Although  
27 the Company claims that Staff failed to cite any instances in which spot market guidance was  
28 misunderstood or misapplied by MEC, the Company in its reply brief (at pages 5-6) agreed to add the

following underlined language to its Written Policy of Power Supply Planning and Implementation under Policy Parameters of Responsibility in Implementation and Oversight:

10. Describe the determination process and protocols that include active recognition and assessment of the risk level relevant to the particular purchasing season or period involved whereby:

\*\*\*

- f. How much purchase power to acquire from the spot market recognizing any quantity limit is a guideline, not a fixed goal or absolute limit.

With these modifications, we believe MEC has adequately addressed Staff's concern with respect to whether the spot market percentage criterion should be considered by management to be a guideline or absolute cap. The Company should make the proposed changes in its written policies.

### Margins on Third Party Sales

Since becoming a PRM in 2001, MEC has periodically made third party sales during periods when the Company had power under contract in excess of its immediate demand. (Tr. 159.) MEC proposes to continue its current practice of separating third party sales from the Company's purchased power clause adjustor ("PPCA") bank balance, and instead treat the third party sales margins as income. (MEC-5, at 23; Tr. 160.) Staff recommends that third party sales margins should be flowed through the PPCA to reduce the bank balance. (Ex. S-7, at 19.)

According to MEC witness Stover, the advantages to the Company's approach are: 1) an increase to margins resulting in higher coverage ratios; 2) margins are flowed to equity thereby increasing the equity ratio for MEC; and 3) margins are flowed to customers' patronage capital accounts, which increases the equity each member/customer has in the Company. (Ex. MEC-5, at 24.) MEC contends that its Board of Directors expressly considered whether to change the treatment of third party sales margins, but directed MEC's management to maintain the current treatment. (Tr. 265-266.)

MEC argues that its Board, as the elected representatives of the customers served by MEC, believes it is in the best interest of the Cooperative to continue to use third party sales margins to increase MEC's debt service coverage ("DSC") and Times Interest Earned Ratio ("TIER"). The

1 Company asserts that its treatment of third party sales is consistent with the cooperative model and  
2 will enhance MEC's financial health. Mr. Stover testified that one of the reasons MEC was able to  
3 defer filing of a rate case for approximately the last 20 years is that there were a number of years  
4 when it had significant third party sales margins that were flowed to the bottom line. (Tr. 160.)

5 Alternatively, MEC requests that the third party sales margins be split equally between the  
6 PPCA and income. The Company cited to several prior Commission decisions in which settlement  
7 proceeds from litigation were split equally between the utility and customers, and MEC claims that  
8 such treatment of third party sales margins would be even more appropriate given that the Company's  
9 ratepayers and members are the same.

10 Staff contends that it is preferable to flow third party sales margins back to ratepayers to  
11 reduce the PPCA rate and/or reduce the purchased power bank balance. (Ex. S-7, at 19.) Mr. Mendl  
12 testified that the benefits claimed by the Company come at a cost to MEC's customers because, under  
13 MEC's retention of the margins as income, customers are essentially forced to "invest" in the  
14 cooperative at the expense of having the margins returned through lower PPCA rates. (*Id.*) Staff  
15 asserts that crediting the PPCA with third party sales margins would result in a timelier return of the  
16 proceeds to customers, rather than forcing ratepayers to wait years, or possibly decades, before they  
17 would derive any tangible benefits from those sales.

18 We agree with Staff that the third party sales margins received by MEC should be flowed  
19 through the PPCA rather than being held by the Company as income. As Staff points out, throughout  
20 the hearing MEC cited to the transient nature of its customer base, as well as the financial hardships  
21 being experienced by many of its customers, as a justification for adoption of a prepaid service  
22 option. (Tr. 241-242; Ex. MEC-7, at 7.) Yet MEC proposes that those same customers should wait  
23 for years or decades to receive any benefit from the third party sales, assuming those customers  
24 would ever receive any benefit at all.<sup>6</sup> The Company's approach has the potential to create  
25 significant intergenerational inequities by failing to return the third party sales margins to customers  
26 through the PPCA, a fact acknowledged by MEC witness Stover. (Tr. 191.)

27  
28 <sup>6</sup> MEC had a PPCA over-collected bank balance of approximately \$9.5 million at the end of the 2010 test year. (Tr. 418.)

1 We therefore adopt Staff's recommendation and direct MEC to credit all future third party  
2 sales margins to the PPCA.

3 **Inclusion of Consulting, Legal and In-House Labor Costs in the PPCA**

4 Beginning in 2001 when it became a PRM, MEC began incurring costs associated with  
5 procuring purchased power. During the 2010 test year, MEC included in its PPCA \$594,737 for legal  
6 fees, consulting fees, in-house payroll costs, and lobbying services.<sup>7</sup> Although the Company agreed  
7 to remove \$32,702 in lobbying fees from the PPCA, there remains a dispute between the Company  
8 and Staff whether the remaining \$562,035 for legal, consulting, and in-house labor costs should be  
9 flowed through the PPCA for the test year. (Tr. 143.) Instead of including the disputed costs in the  
10 PPCA, Staff recommends that the \$562,035 of test year costs be reclassified as administrative and  
11 general expenses for recovery in rate base. (Ex. MEC-5, at 17.)

12 In 2008 or 2009, at the direction of MEC's former CEO, the Company began to investigate  
13 whether such costs would be properly recovered through MEC's PPCA, and in 2010 the Company  
14 began to include legal, consulting, and in-house labor costs associated with purchased power. (Tr.  
15 152-153, 267-268.) According to Mr. Stover, MEC consulted with its auditors and consultants (C.H.  
16 Guernsey) and determined that certain purchased power related consulting, legal and in-house  
17 expenses should be booked in Rural Utility Service ("RUS") Account 557, and the Company started  
18 booking those expenses in Account 557 in 2008. (Tr. 167.) Starting in 2010, MEC included in its  
19 PPCA the costs booked in Account 557. (Tr. 267.) However, at no time prior to its decision to begin  
20 recovering legal, consulting and in-house labor costs in the PPCA did the Company consult with  
21 Staff, or seek guidance from the Commission, as to whether such costs were properly recoverable  
22 through the PPCA. (*Id.* at 152.)

23 MEC contends that it is appropriate to recover these costs through the PPCA because they are  
24 "associated with securing, scheduling, documenting and reporting purchased power." (*Id.* at 16.)  
25 MEC's current CEO, Mr. Carlson, stated that if the costs were not collected through the PPCA,  
26 "[MEC's] financial performance would have been adversely affected." (Ex. MEC-7, at 13.) The

27 <sup>7</sup> According to MEC's May 11, 2012 Late-Filed Exhibit, the Company included in its PPCA an additional \$351,469 in  
28 2011, and \$86,753 for the first three months of 2012, for expenses related to legal fees, consulting fees, and in-house  
labor expenses.

1 Company claims that the issue is whether a cooperative electric distribution company should be able  
2 to collect such expenses through its purchased fuel adjustor, and MEC argues that the Commission  
3 has not previously established the fuel and purchased power related accounts that the Company may  
4 collect through the PPCA.

5 The Company also contends that the prior Commission Decisions relied on by Staff (Decision  
6 Nos. 68071 and 71274)<sup>8</sup> to deny recovery of these costs through the PPCA did not approve any  
7 general rules or generic orders that were binding on any utility other than the applicants in those  
8 cases. According to MEC, in both cases the utility companies accepted a Staff recommendation  
9 regarding the specific cost accounts that could be included in the companies' fuel adjustors, and the  
10 Commission did not specifically address the reasonableness of the parties' agreement because no  
11 contested issue remained.

12 The Company requests that if the Commission finds that the consulting, legal and in-house  
13 labor costs should not be collected through the PPCA, and should instead be recovered through base  
14 rates, as Staff recommends, the changes should be made effective only as of the date of the new rates.  
15 Mr. Stover claims that if the Commission were to agree with Staff that the \$562,035 of test year costs  
16 should be removed from the PPCA bank balance, MEC's 2012 total revenue, operating income, net  
17 income, coverage ratios and balance sheet would be adversely impacted by that amount. (Ex. MEC-5,  
18 at 20-21.) Mr. Stover indicated that such an event would likely cause MEC to be in default of its  
19 mortgage requirements for the fourth straight year, even with the rate relief granted in this case. (*Id.*)

20 Staff recommends that the consulting, legal and in-house labor expenses included in MEC's  
21 PPCA should be removed, and the Company's bank balance should be reduced by \$562,035 that was  
22 included in the test year. Staff witness Mendl testified that "[a]s a ratemaking principle, fuel and  
23 purchased power clauses are reserved for volatile price changes that are outside the control of the  
24 regulated utility. Costs such as consulting and lobbying and legal fees and in-house labor are within  
25 the utility's control and are recovered through the general rates." (Ex. S-6, at 15.) In his surrebuttal  
26 testimony, Mr. Mendl reiterated that to be properly included in the PPCA costs must be "for

27 \_\_\_\_\_  
28 <sup>8</sup> Ex. S-10, *AEPCO*, Decision No. 68071 (August 17, 2005); Ex. S-11, *Sulphur Springs Valley Electric Cooperative, Inc.*  
("SSVEC"), Decision No. 71274 (September 8, 2009).

1 purchased power and associated transmission,” and not for administrative, legal, consulting, billing,  
2 or any other related costs that may be associated with procuring fuel and purchased power. (Ex. S-7,  
3 at 13-14.)

4 Staff also expressed concern that MEC’s inclusion of the disputed costs in the PPCA could  
5 result in a measure of double recovery because similar costs would be built into the Company’s base  
6 rates, whether they were explicitly recognized in the prior rate case. According to Staff, under  
7 general regulatory principles, the expenses for the test year in the Company’s prior rate case are  
8 effectively deemed to be consistent for all subsequent years until it seeks rate relief to recognize  
9 changing investment and expenses.

10 Staff contends that MEC’s actions after becoming a PRM were consistent with these  
11 regulatory principles until 2010, inasmuch as the Company did not include the expenses in its PPCA  
12 from 2001 through 2009. Staff argues it was only when MEC experienced declining margins in 2008  
13 and 2009, due to a decline in third party sales, that the Company decided to book the expenses for  
14 recovery through the PPCA. (Tr. 149-150.)

15 Staff cites to Decision No. 68071 (AEPCO) and Decision No. 71274 (SSVEC) to support its  
16 claim that the Commission has previously considered the types of expenses that are properly  
17 includable in the PPCA. In approving AEPCO’s fuel and purchased power adjustor, the Commission  
18 cited to Staff witness Barbara Keene’s testimony, which was unopposed by any party. (Ex. S-10, at 9-  
19 10.) In describing the types of costs that may be included in AEPCO’s adjustor, Ms. Keene testified  
20 that:

21 The cost components would be the costs recorded in RUS accounts 501  
22 (fuel costs for steam power generation, less legal fees, less fixed fuel costs  
23 except for gas reservation), 547 (fuel costs for other power generation),  
24 555 (purchased power costs, both demand and energy), and 565 (wheeling  
25 costs, both firm and non-firm). The prudent direct costs of contracts used  
26 for hedging fuel and purchased power costs may also be included. Power  
27 supply costs directly assignable to special contract customers would not be  
included in the calculation. Non-Class A sales for resale (RUS Account  
447), less revenue for legal expenses, would be credited against the cost  
components.<sup>9</sup>

28 <sup>9</sup> Direct Testimony of Barbara Keene, Docket No. E-01773A-04-0528 et al., at 3.

Staff asserts that although the specific types of expenses claimed by MEC were not addressed in that Decision, the adoption of the unopposed Staff recommendation in the AEPCO case establishes the parameters for the types of expenses that may be included in a fuel and purchased power adjustor.

Staff also cites to the later SSVEC case (Decision No. 71274) to support its position. In that Decision, the Commission approved a wholesale power and fuel adjustor clause (“WPFAC”) for SSVEC, which changed from an all-requirements member of AEPCO in 2008, and has been a PRM since that time. (Ex. S-11, at 2.) In doing so, the specific types of costs recoverable through the WPFAC were referenced by citation to Staff’s testimony, as follows: “[w]e also adopt Staff’s recommendations as set forth in the direct testimony of Ms. McNeely-Kirwin concerning the costs that are appropriately included in the WPFAC.” (*Id.* at 31.) The Staff testimony explicitly referenced by the Commission included the following:

**Q. What cost components should be included in the WPCA mechanism?**

A. The SSVEC power and fuel adjustor should include costs directly related to the purchase, generation or transmission of power. These include the following FERC accounts: 501 (fuel costs for steam power generation, less legal fees, less fixed fuel costs except for gas reservation), 518 (fuel costs for nuclear power generation, less Independent Spent Fuel Storage Installation (“ISFI”) regulatory amortization), 547 (fuel costs for other power generation), 555 (purchased power costs – demand and energy), and 565 (transmission of electricity by others, both firm and non-firm. Power supply costs directly assignable to special contract customers would not be included in the calculation.

\* \* \* \* \*

**Q. Should capital or legal costs go through the SSVEC WPCA mechanism?**

A. No, and SSVEC has stated that capital costs would not be recovered through the revised adjustor mechanism. (Response to JKM 6.4) *Legal costs are another example of costs that should not go through the WPCA, as these are not appropriate for a power and fuel adjustor.*

(Ex. S-12, at 12-13, emphasis added.)

Although the SSVEC case involved FERC accounts that may be included in the adjustor mechanism, Staff points out that the account numbers and categories are the same as the RUS accounts at issue in this case for MEC. Staff argues that inclusion of MEC’s consulting, legal and in-



1 house labor costs in the PPCA is contrary to the very concept of a fuel and purchased power adjustor,  
2 which is to allow an electric utility to recover or refund volatile fluctuating power supply costs  
3 between rate cases. Staff therefore recommends that MEC be permitted to book expenses related to  
4 purchased power which are included in RUS Accounts 555, 565, and 547 for purchased power, and  
5 Accounts 501 and 547 if the Company purchases fuel for power generation in the future

6 With respect to the treatment of ineligible costs already included in the PPCA, Staff  
7 recommends that the 2010 test year disputed expenses (\$594,737 based on \$562,035 plus \$32,702 in  
8 lobbying expenses) should be removed from the PPCA. For the additional ineligible expenses  
9 included in 2011 and 2012 (until the effective date of this Decision), Staff recommends that the  
10 Company's purchased bank balance would be adjusted in MEC's next rate case to remove those  
11 costs. (Ex. S-7, at 17-18.)

12 We agree with Staff's recommendations on this issue. The record reflects that for the period  
13 of July 2001, when it became a PRM, through 2009, MEC did not seek to include in its PPCA costs  
14 related to consulting, legal, in-house labor and lobbying. Beginning in 2010, however, the Company  
15 decided that such costs could be recovered through the PPCA, based solely on the advice of an  
16 outside auditor; this despite the adoption of Staff recommendations in prior Commission Orders for  
17 AEPCO and SSVEC that indicated, or suggested strongly, that such costs were not eligible for  
18 recovery through a fuel and purchased power adjustor. Moreover, it appears that MEC made a  
19 calculated decision to begin including the costs in the PPCA because "had these costs not been  
20 collected through our PPCA, Mohave's financial performance would have been adversely affected."  
21 (Ex. MEC-7, at 13.) The Company's unilateral determination to begin passing these costs through  
22 the PPCA based on the advice of a single outside auditor, without seeking input from Staff or the  
23 Commission as to the appropriateness of such a practice, suggests that MEC sought to use the PPCA  
24 as a means of implementing an immediate rate increase outside of a rate application.

25 We also agree with Staff that the \$594,737 included in the test year PPCA for consulting,  
26 legal, in-house labor, and lobbying expenses should be removed from MEC's purchased power bank  
27 balance. As Staff indicated, going forward these costs will be recovered through base rates and the  
28 removal of the expenses from the Company's approximately \$9.5 million bank balance at the end of

1 the test year indicates that the required cost exclusion is only a small part of the \$9.5 million PPCA  
2 over-collection from customers. (Tr. 418-419.) MEC should make a filing within 30 days of the  
3 effective date of this Decision showing that the bank balance adjustment has been made in  
4 accordance with Staff's recommendation. On a going-forward basis, only the direct fuel and  
5 purchased power expenses identified by Staff shall be included in MEC's PPCA.

6 Given that MEC had an over-collected PPCA bank balance at the end of the 2010 test year,<sup>10</sup>  
7 and that it began recovering a number of ineligible expenses in the PPCA without the Commission's  
8 knowledge or approval, we believe it is necessary and appropriate to require MEC to file a proposed  
9 Plan of Administration ("POA") for its PPCA in this docket as a compliance item, within 90 days.  
10 The POA should be filed for Staff's review and recommendation, and subject to the Commission's  
11 approval.

12 With respect to the ineligible expenses collected through the PPCA in 2011 and 2012, we will  
13 adopt Mr. Mendl's recommendation that a comparable exclusion of those expenses be addressed in  
14 the Company's next rate case. (Ex. S-7, at 18.)

15 We therefore adopt Staff's position on this issue in its entirety, and set MEC's base cost of  
16 power at \$0.087701 per kWh.

17 **Rate Application Filing Requirement**

18 Staff recommended that MEC be directed to file its next rate application no later than  
19 September 1, 2016, based on a 2015 calendar test year. (Ex. S-7, at 23.) This represents a five-year  
20 difference in the test year in this case and the next rate case. MEC opposes Staff's recommendation  
21 on the basis that the timing of the next rate case should be a management decision that is best left to  
22 the Company's Board of Directors. (Ex. MEC-6, at 11; Ex. MEC-7, at 14.)

23 Staff contends that its recommendation is based on the difficulty it encountered in this  
24 proceeding receiving information from MEC to assess the prudence of the Company's power  
25 procurement process due, at least in part, to the length of time between when MEC became a PRM in  
26 2001 and the 2010 test year in this case. As recounted in Mr. Mendl's testimony, MEC sought to  
27

28 <sup>10</sup> The amount of the current PPCA bank balance is unknown.

1 limit the production of purchased power information prior to 2007. In response to a Staff data  
2 request seeking information from 2001 when the Company became a PRM, counsel for MEC  
3 responded that:

4 [A] review of Mohave power purchasing between 2001 and 2008 has little  
5 or no relevance to the test year and the projected conditions – the only  
6 periods relevant to the current rate proceeding. The foregoing, coupled  
7 with the burdensome nature on Mohave of requesting it to review a decade  
8 of records, back to 2001, resulted in Mohave objecting to data requests  
9 seeking information prior to 2007. (Ex. S-6, at 9.)<sup>11</sup>

10 In his direct testimony, Mr. Mendl stated that MEC's refusal to provide the requested  
11 information prevented Staff from being able to determine the prudence of the Company's power  
12 purchases prior to 2007.<sup>12</sup> As a result, as noted above, Staff initially recommended that the  
13 Commission impose a prudence adjustment of \$1,946,000 to the Company's purchased power bank,  
14 representing one percent of MEC's total purchased power costs during that period. (*Id.* at 26-27.)

15 Staff continued to pursue the purchased power cost and policies information, and MEC  
16 subsequently agreed to provide documentation for the 2001 through 2006 period. (Ex. S-7, at 2.)  
17 Staff therefore amended its recommendation to remove the \$1,946,000 prudence adjustment,  
18 although several other adjustments were recommended as a result of Staff's audit, including the  
19 exclusion of ineligible PPCA expenses discussed above.

20 Given the difficulties described by Mr. Mendl, Staff claims that it is appropriate for the  
21 Commission to require MEC to file a rate case by no later than September 1, 2016, "so that no more  
22 than five years elapses between this rate case and the next rate case to ensure the purchased power  
23 cost data and supporting information remain fresh...[to] avoid surprises of having potential  
24 disallowances, especially large disallowances that could accumulate over many years...[to] reduce  
25 the large volumes that had to be reviewed...mak[ing] it easier to recall or reconstruct the context in  
26 which MEC made its power purchases." (Ex. S-6, at 27, 33; Ex. S-7, at 24.) Staff also recommends

27 <sup>11</sup> Counsel for MEC also responded to Staff that providing the requested information "would be extremely burdensome, if  
28 not impossible to gather." (Ex. S-7, at 5.)

<sup>12</sup> We note that Article 15, § 4, of the Arizona Constitution states that the Commission "shall have the power to inspect  
and investigate the property, books, papers, business, methods, and affairs of...any public service corporation doing  
business within the State." This authority is extended to "each commissioner and person employed by the commission"  
[to] "at any time, inspect the accounts, books, papers and documents of any public service corporation," pursuant to  
A.R.S. § 40-241.A.

1 that the Company be required “to maintain all files and records pertinent to [its] purchased power  
2 planning and procurement, and to document the prudence of the purchased power expenditures.” (Ex.  
3 S-6, at 27.)

4 MEC witness Carlson opposes Staff’s recommendation, claiming that it would “unnecessarily  
5 and inappropriately remove the management prerogative to make these determinations from the duly  
6 elected representatives of Mohave’s customers – the Mohave Board of Directors.” (Ex. MEC-7, at  
7 14.) He also stated that Staff’s concern with the amount of data to be reviewed in a purchased power  
8 audit “does not justify compelling Mohave to incur the cost of a full rate filing if Mohave’s financial  
9 condition does not warrant filing a rate case.” (Ex. MEC-8, at 10.)

10 As an alternative, MEC proposes an “informational filing” that would consist of its 2015 audit  
11 report, a summary schedule, and a narrative explanation of why a rate filing is not necessary or has  
12 been delayed. (MEC Initial Brief, at 35.) MEC cites to Decision No. 63868 (July 25, 2001) in which  
13 less than a full rate case filing was ordered for AEPCO, as well as Decision No. 71274 (September 8,  
14 2009), wherein the Commission suggested that a subsequent Staff purchased power prudence audit  
15 may be “a full prudency review, or it may involve a lesser investigation.” (Ex. S-11, at 34.)

16 We agree with Staff that MEC should be required to file a full rate case by no later than  
17 September 1, 2016, based on a calendar year 2015 test year. Prior to the instant rate application, the  
18 Company had not filed a rate case since 1989. Moreover, the prudence of its purchased power  
19 practices and policies had never been reviewed since its change to a PRM in 2001. Although we  
20 agree with MEC that a certain level of deference should be accorded the Company’s operations due  
21 to its member-owned cooperative structure, MEC is a public service corporation under Article 15, §  
22 2, of the Arizona Constitution, and, as such, the Commission is not only permitted, but is obligated to  
23 “prescribe just and reasonable classifications to be used and just and reasonable rates and charges to  
24 be made and collected” by MEC. (Arizona Constitution, Article 15, § 3.) The Company’s decision  
25 not to file a rate application for more than 20 years, combined with its unilateral decision to include  
26 what we have determined to be ineligible costs as a means of delaying a rate filing, reinforce our  
27 finding that a five-year interim between test years is reasonable. Accordingly, we find the issues  
28 identified by Staff (*e.g.*, treating third party sales margins as income and recovering ineligible costs

1 through the PPCA) in this case justify a requirement for MEC to file a full rate application, and that  
2 Staff undertake a purchased power prudence review, in order to mitigate the potential negative  
3 consequences associated with lengthy gaps between full rate and prudence investigations by Staff and  
4 the Commission.

5 We therefore adopt Staff's recommendation on this issue.

6 **Record Retention Policy**

7 MEC and Staff have agreed that discussions about the Company's records retention policies  
8 should occur after the close of this case, but differ slightly as to the scope of those discussions and  
9 responsibility for determining what documents are maintained.

10 Staff recommends that MEC and Staff be directed to meet within 2 months of this Decision to  
11 discuss options for streamlining the rate case process and identifying issues and information that may  
12 be required for the Company's next rate case. (Ex. S-7, at 23-25.) Staff also recommends that MEC  
13 be required to maintain all files and records related to purchased power planning and procurement,  
14 and to document the prudence of purchased power expenditures. (*Id.* at 28.) Staff indicated that  
15 although it is willing to meet with MEC regarding records retention issues, the Company is in a better  
16 position to determine what information should be retained and how it is presented. (Tr. 469.)

17 MEC indicated that it is confident that the discussions will result in development of a  
18 meaningful record retention policy that is acceptable to the Company and Staff. MEC suggests that if  
19 either party is dissatisfied, the party could seek an additional order from the Commission. (MEC  
20 Reply Brief, at 17.)

21 We agree that discussions between MEC and Staff would serve a useful purpose to avoid the  
22 type of problems that were experienced in this case. We will therefore direct that MEC and Staff  
23 engage in informal discussions, within 60 days of this Decision, to allow Staff to provide input  
24 regarding the types of documentation that may be required in future rate cases and purchased power  
25 prudence reviews. However, MEC bears the ultimate responsibility for retaining and providing  
26 adequate documentation in all future proceedings that support the reasonableness of its practices.

27 ...

28 ...

1 **Other Issues**

2 **\$9 Million Minimum Cash Reserve**

3 In its application, MEC requested that the Commission eliminate the \$9 million cash or cash  
4 equivalent reserve requirement established by Commission Decision No. 72216 wherein the  
5 Commission approved MEC's request for financing to fund its capital work plan. Staff found the  
6 additional revenues recommended by MEC and Staff in this case negated the need for such a reserve  
7 and recommended "that the Cooperative's request to eliminate its \$9 million reserve requirement be  
8 approved." (Ex. S-4, at 14.) We agree that the reserve requirement may be eliminated at this time.

9 **DSM and REST Adjustors**

10 After the conclusion of the hearing, MEC and Staff agreed certain language should be  
11 approved in this case in order to ensure that MEC's Demand Side Management ("DSM") and  
12 Renewable Standard Tariff ("REST") adjustors are deemed adjustor mechanisms that have been  
13 approved in a full rate proceeding. (See MEC Reply Brief, Attach. D.)

14 **DSM**

15 We agree with Staff that it is appropriate in this rate proceeding to specifically approve a  
16 DSM adjustor mechanism, as recommended by Staff during the hearing. Therefore, the initial rates  
17 of the DSM adjustor mechanism will be the same as the DSM cost recovery tariff that is approved in  
18 Docket No. E-01750A-11-0228 (MEC's 2012-2013 Electric Energy Efficiency Implementation Plan  
19 and Demand Side Management Program docket). Subsequent changes to the DSM adjustor rates will  
20 be set in connection with the Electric Energy Efficiency Implementation Plan submitted by MEC and  
21 approved by the Commission pursuant to the Electric Energy Efficiency Standards rules, or as  
22 otherwise ordered by the Commission.

23 **REST**

24 We also agree with Staff that it is appropriate in this rate proceeding to specifically approve a  
25 REST adjustor mechanism, as recommended by Staff during the hearing. Therefore, the initial rates  
26 of the REST adjustor mechanism will be the same as the REST tariff charges approved in Decision  
27 No. 72082. Subsequent changes to the REST adjustor rates will be set in connection with the annual  
28 Renewable Efficiency Implementation Plan submitted by MEC and approved by the Commission

pursuant to the Renewable Energy Standard and Tariff rules, or as otherwise ordered by the Commission.

### **Bill Estimation Tariff**

MEC has agreed that it will file a bill estimation tariff for Commission review and approval with 90 days of the effective date of this Decision. MEC should file the agreed upon bill estimation tariff within 90 days.

\* \* \* \* \*

Having considered the entire record herein and being fully advised in the premises, the Commission finds, concludes, and orders that:

### **FINDINGS OF FACT**

1. On March 30, 2011, MEC filed with the Commission an application for a determination of the fair value of its property for ratemaking purposes, to fix a just and reasonable return thereon, and to approve rates designed to develop such return. With its application, MEC filed supporting schedules and the direct testimony of Carl N. Stover and Michael W. Searcy.

2. On April 27, 2011, MEC filed a letter stating that the Company agreed to waive the time clock for determining the sufficiency of its rate application.

3. On May 27, 2011, MEC filed Supplemental Direct Testimony and Schedules with Calendar Year 2010 data.

4. On June 27, 2011, the Staff filed its Letter of Sufficiency indicating that MEC's application satisfied the requirements of A.A.C. R14-2-103 and classifying the Company as a Class A utility.

5. On June 27, 2011, Staff filed a Proposed Procedural Schedule for Filing Dates.

6. On July 1, 2011, Staff filed Revised Proposed Schedule for Filing Dates which recommended a compressed schedule compared to the original proposed schedule.

7. On July 6, 2011, MEC filed a response to Staff's proposed schedule.

8. By Procedural Order issued July 15, 2011, the evidentiary hearing was scheduled to commence on March 19, 2012, and other procedural filing deadlines were established.

9. On September 22, 2011, MEC filed an affidavit of publication and certification of

1 mailing of notice of the application and hearing date.

2 10. On November 18, 2011, Staff filed a Request for Extension of Time to File Testimony  
3 and for Waiver of Time Clock. Staff stated that it did not have sufficient time to meet the November  
4 30, 2011, testimony filing deadline due to the need for additional information from MEC. Staff  
5 proposed an alternative procedural schedule that included rescheduling the hearing date to begin May  
6 3, 2011.

7 11. On November 22, 2011, MEC filed an Opposition to Staff's Request for Extension of  
8 Time. The Company claimed that it had timely responded to Staff's requests for information and that  
9 any delays were due to Staff's actions. MEC suggested a two-week extension of Staff's filing  
10 deadline, but maintaining the March 19, 2011, hearing date.

11 12. On November 22, 2011, MEC and Staff initiated a telephonic conference call with the  
12 Administrative Law Judge to discuss the extension request. During the conference call, the parties  
13 tentatively agreed to an alternative procedural schedule, subject to final confirmation of exact dates.

14 13. On November 30, 2011, MEC and Staff filed a Joint Revised Procedural Schedule.

15 14. On December 1, 2011, a Procedural Order was issued rescheduling the hearing to  
16 commence on April 9, 2012; reserving the original March 19, 2012 hearing date for public comment;  
17 and establishing revised filing dates for pre-filed testimony.

18 15. On January 12, 2012, Staff filed the direct testimony of Jerry Mendl, Candrea Allen,  
19 Margaret (Toby) Little, and Crystal S. Brown.

20 16. On January 31, 2012, Staff filed a Motion for Extension of Time, requesting a one-day  
21 extension for filing its direct rate design testimony.

22 17. On February 1, 2012, Staff filed the direct rate design testimony of Bentley Erdwurm.

23 18. On February 23, 2012, MEC filed the rebuttal testimony of Mr. Searcy and Mr.  
24 Stover. The Company also requested a one-day extension of time to file the rebuttal testimony of J.  
25 Tyler Carlson.

26 19. On February 24, 2012, MEC filed the rebuttal testimony of Mr. Carlson.

27 20. On March 13, 2012, Staff filed the surrebuttal testimony of Mr. Mendl, Ms. Allen, Ms.  
28 Brown, and Mr. Erdwurm.



1        21.    On March 19, 2012, the hearing was convened for the purpose of taking public  
2 comment. No members of the public appeared at that time to offer comments.

3        22.    On March 27, 2012, Staff filed an Errata to Ms. Brown's testimony and attached a  
4 schedule that was omitted inadvertently.

5        23.    On March 30, 2012, MEC filed the rejoinder testimony of Mr. Stover, Mr. Searcy, and  
6 Mr. Carlson.

7        24.    On April 5, 2012, MEC and Staff filed summaries of their witnesses' testimony.

8        25.    On April 6, 2012, the prehearing conference was conducted to discuss the scheduling  
9 of witnesses and other procedural matters.

10       26.    The evidentiary hearing convened, as scheduled, on April 9, 2012, and continued on  
11 April 10 and 11, 2012. At the conclusion of the hearing, a briefing schedule was established by  
12 agreement of the parties.

13       27.    On May 11, 2012, MEC and Staff filed their initial post-hearing briefs. MEC also  
14 filed a late-filed exhibit with information requested at the hearing by the Administrative Law Judge.

15       28.    On June 4, 2012, MEC and Staff filed their reply briefs.

16       29.    In its application, MEC requested an overall revenue increase of \$2,980,757  
17 (approximately 3.8 percent) over test year revenues. Ultimately, MEC and Staff agreed that the  
18 Company should receive an overall revenue increase of \$3,061,529 (approximately 4.02 percent).

19       30.    It is just and reasonable, and in the public interest, to establish for MEC a total  
20 \$79,129,535 revenue requirement based on an adjusted calendar 2010 test year OCRB and FVRB of  
21 \$48,083,871; adjusted test year revenues of \$76,068,006; adjusted test year expenses of \$75,523,583;  
22 adjusted test year operating margin (before interest on long-term debt) of \$544,423; and a rate of  
23 return on FVRB of 7.50 percent.

24       31.    A differential between the standard residential customer charge and the TOU customer  
25 charge of \$5.00 is reasonable.

26       32.    MEC's summer peak periods for the residential TOU rates as follows: Summer (April  
27 16 to October 15) residential TOU peak period for Option 1 (peak on weekdays only) should be  
28 12:00 p.m. (noon) to 7:30 p.m. (7.5 hours), and Option 2 (peak applies weekdays and weekends) peak

1 period should be 2:00 p.m. to 7:30 p.m. (5.5 hours). The residential TOU rate should include an  
2 inclining block rate structure with first block pricing for the first 400 kWh of monthly on-peak and  
3 off-peak kWh; and the TOU inverted block structure per kWh differential would match the regular  
4 residential rate of 15 mills per kWh (1.5 cents per kWh) between adjacent blocks, for a total  
5 differential of 3.0 cents per kWh.

6 33. The monthly residential customer charge of \$16.50 should be approved for MEC.

7 34. MEC's new LC&I TOU rate should apply to new and existing customers alike.

8 35. MEC's proposed service rules and regulations tariffs should be approved, as set forth  
9 in its application, with the modifications contained in Staff witness Candrea Allen's testimony (Ex.  
10 MEC-1, Attach. 3, Section P; Ex. S-2, at 7-8.), however, we will waive the requirement of a personal  
11 site visit found in A.A.C. R14-2-211 E(4).

12 36. It is appropriate to preserve MEC's existing line extension policies unless and until  
13 MEC has demonstrated to our satisfaction that it has performed sufficient outreach to its members  
14 and revisions to the Company's line extension policies are in the public interest.

15 37. MEC's Prepaid Service Tariff and Prepaid Service Agreement should be approved on  
16 a conditional, experimental basis, as set forth in the attachments to Mr. Carlson's rejoinder testimony,  
17 and attached hereto as Attachment B, subject to compliance with the reporting requirements specified  
18 herein.

19 38. For purposes of implementing its Prepaid Service Tariff and Prepaid Service  
20 Agreement the tariff, MEC should be granted a waiver from compliance with the applicable  
21 provisions of the Commission's rules governing Establishment of Service (A.A.C. R14-2-203);  
22 Billing and Collection (A.A.C. R14-2-210); and Termination of Service (A.A.C. R14-2-211), in  
23 accordance with the discussion herein.

24 39. The informational material developed by the Company to market its prepaid metering  
25 service should be approved, subject to any additional modifications that Staff deems necessary  
26 (Attachment C hereto).

27 40. MEC should credit all future third party sales margins to the PPCA.  
28

1        41.     MEC should remove \$594,737 included in the test year PPCA for consulting, legal, in-  
2 house labor, and lobbying expenses from its purchased power bank balance, and to require MEC to  
3 make a filing within 30 days of the effective date of this Decision showing that the bank balance  
4 adjustment has been made in accordance with Staff's recommendation. On a going-forward basis,  
5 only the direct fuel and purchased power expenses identified by Staff shall be included in MEC's  
6 PPCA.

7        42.     Exclusion of ineligible expenses collected through the PPCA in 2011 and 2012,  
8 should be addressed in the Company's next rate case.

9        43.     A base cost of power for MEC of \$0.087701 per kWh should be adopted.

10       44.     MEC should file a proposed Plan of Administration for its PPCA in this docket as a  
11 compliance item, within 90 days.

12       45.     MEC should be required to file a full rate case by no later than September 1, 2016,  
13 based on a calendar year 2015 test year.

14       46.     MEC and Staff should engage in informal discussions, within 60 days of this  
15 Decision, to allow Staff to provide input regarding the types of documentation that may be required  
16 in future rate cases and purchased power prudence reviews.

17       47.     The \$9 million cash or cash equivalent reserve requirement established by  
18 Commission Decision No. 72216 should be eliminated.

19       48.     A DSM adjustor mechanism for MEC should be approved, with the initial rates of the  
20 DSM adjustor mechanism being the same as the DSM cost recovery tariff that is approved in Docket  
21 No. E-01750A-11-0228 (MEC's 2012-2013 Electric Energy Efficiency Implementation Plan and  
22 Demand Side Management Program docket). Subsequent changes to the DSM adjustor rates will be  
23 set in connection with the Electric Energy Efficiency Implementation Plan submitted by MEC and  
24 approved by the Commission pursuant to the Electric Energy Efficiency Standards rules, or as  
25 otherwise ordered by the Commission.

26       49.     A REST adjustor mechanism for MEC should be approved, with the initial rates of the  
27 REST adjustor mechanism being the same as the REST tariff charges approved in Decision No.  
28 72082. Subsequent changes to the REST adjustor rates will be set in connection with the annual

1 Renewable Efficiency Implementation Plan submitted by MEC and approved by the Commission  
2 pursuant to the Renewable Energy Standard and Tariff rules, or as otherwise ordered by the  
3 Commission.

4 50. MEC should file a bill estimation tariff for Commission review and approval with 90  
5 days of the effective date of this Decision.

6 **CONCLUSIONS OF LAW**

7 1. MEC is a public service corporation pursuant to Article 15 of the Arizona Constitution  
8 and A.R.S. §§ 40-241, 40-250 and 40-251.

9 2. The Commission has jurisdiction over MEC and the subject matter of the application.

10 3. Notice of the proceeding was provided in conformance with law.

11 4. The rates, charges, approvals and conditions of service approved herein are just and  
12 reasonable and in the public interest.

13 5. Consistent with the discussion herein regarding prepaid metering service, MEC should  
14 be granted a waiver from compliance with the applicable provisions of the Commission's rules  
15 governing Establishment of Service (A.A.C. R14-2-203); Billing and Collection (A.A.C. R14-2-210);  
16 and Termination of Service (A.A.C. R14-2-211).

17 **ORDER**

18 IT IS THEREFORE ORDERED that Mohave Electric Cooperative, Incorporated, is hereby  
19 authorized and directed to file with the Commission, on or before August 31, 2012, revised schedules  
20 of rates and charges consistent with the discussion herein and a proof of revenues showing that, based  
21 on the adjusted test year level of sales, the revised rates will produce no more than the authorized  
22 increase in gross revenues.

23 IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective  
24 for all service rendered on and after September 1, 2012.

25 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated, shall notify its  
26 customers of the revised schedules of rates and charges authorized herein by means of an insert, in a  
27 form acceptable to Staff, included in its next regularly scheduled billing.

28 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated's proposed

1 service rules and regulations tariffs, as set forth in its application, with the modifications contained in  
2 Staff's testimony, are approved. In addition, Mohave Electric Cooperative, Incorporated shall  
3 include language in its service rules and regulations tariffs stating that it may disconnect service to  
4 any customer without making a personal visit to the site and notify its customers of this in Mohave  
5 Electric Cooperative, Incorporated's next regularly scheduled billing.

6 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated's existing line  
7 extension policies shall be preserved unless and until the Company has demonstrated to our  
8 satisfaction that it has performed sufficient outreach to its members and that revisions to the line  
9 extension policies are in the public interest.

10 IT IS FURTHER ORDERED that this docket shall remain open until December 31, 2013, for  
11 the sole purpose of allowing Mohave Electric Cooperative, Incorporated to request additional  
12 revisions to its line extension policies after allowing adequate public input and comment on this  
13 issue.

14 IT IS FURTHER ORDERED that on a conditional, experimental basis, Mohave Electric  
15 Cooperative, Incorporated's Prepaid Service Tariff and Prepaid Service Agreement attached hereto as  
16 Attachment B is approved.

17 IT IS FURTHER ORDERED that, for purposes of implementing its prepaid metering service  
18 tariff, Mohave Electric Cooperative, Incorporated shall be granted a waiver from compliance with the  
19 applicable provisions of the Commission's rules governing Establishment of Service (A.A.C. R14-2-  
20 203); Billing and Collection (A.A.C. R14-2-210); and Termination of Service (A.A.C. R14-2-211), in  
21 accordance with the discussion herein.

22 IT IS FURTHER ORDERED that, the informational material developed by Mohave Electric  
23 Cooperative, Incorporated, to market its prepaid metering service shall be approved, subject to any  
24 additional modifications that Staff deems necessary.

25 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated shall annually  
26 file beginning September 2013 for the prior 12-month period with Docket Control, as a compliance  
27 item in this docket, the following information: the number of prepaid metering customers per month;  
28 the number of disconnects per account per month, specifying the number of low-income customers (if

1 the Company has the ability to track low-income data); the number of prepaid metering customers  
2 that have been disconnected for 24 hours or more (in 24-hour increments) and the number of  
3 accounts with repeated disconnections per month; and the number of customer complaints specific to  
4 prepaid metering, including a description of the types of complaints received.

5 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated, shall credit all  
6 future third party sales margins to the PPCA.

7 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated, shall remove  
8 \$594,737 included in the test year PPCA for consulting, legal, in-house labor, and lobbying expenses  
9 from its purchased power bank balance, and the Company shall make a filing with Docket Control, as  
10 a compliance item in this docket, within 30 days of the effective date of this Decision showing that  
11 the bank balance adjustment has been made in accordance with Staff's recommendation.

12 IT IS FURTHER ORDERED that, on a going-forward basis, only the direct fuel and  
13 purchased power expenses identified by Staff shall be included in Mohave Electric Cooperative,  
14 Incorporated's PPCA.

15 IT IS FURTHER ORDERED that the exclusion of ineligible expenses collected through the  
16 PPCA in 2011 and 2012, should be addressed in Mohave Electric Cooperative, Incorporated's next  
17 rate case.

18 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated's base cost of  
19 power is \$0.087701 per kWh.

20 IT IS FURTHER ORDERED that within 90 days from the effective date of this Decision,  
21 Mohave Electric Cooperative, Incorporated shall file with Docket Control, as a compliance item in  
22 this docket, a Plan of Administration for its PPCA for Commission approval.

23 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated, shall file a full  
24 rate case by no later than September 1, 2016, based on a calendar year 2015 test year.

25 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated, and Staff shall  
26 engage in informal discussions, within 60 days of this Decision, to allow Staff to provide input  
27 regarding the types of documentation that may be required in future rate cases and purchased power  
28 prudence reviews.

1 IT IS FURTHER ORDERED that the \$9 million cash or cash equivalent reserve requirement  
2 established by Commission Decision No. 72216 is hereby eliminated.

3 IT IS FURTHER ORDERED that the initial rates of Mohave Electric Cooperative,  
4 Incorporated's DSM adjustor mechanism will be the same as the DSM cost recovery tariff that is  
5 approved in Docket No. E-01750A-11-0228 (MEC's 2012-2013 Electric Energy Efficiency  
6 Implementation Plan and Demand Side Management Program docket). Subsequent changes to the  
7 DSM adjustor rates will be set in connection with the Electric Energy Efficiency Implementation  
8 Plan submitted by the Company and approved by the Commission pursuant to the Electric Energy  
9 Efficiency Standards rules, or as otherwise ordered by the Commission.

10 IT IS FURTHER ORDERED that the initial rates of Mohave Electric Cooperative,  
11 Incorporated's REST adjustor mechanism will be the same as the REST tariff charges approved in  
12 Decision No. 72082. Subsequent changes to the REST adjustor rates will be set in connection with  
13 the annual Renewable Efficiency Implementation Plan submitted by MEC and approved by the  
14 Commission pursuant to the Renewable Energy Standard and Tariff rules, or as otherwise ordered by  
15 the Commission.

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1 IT IS FURTHER ORDERED that Mohave Electric Cooperative, Incorporated shall file with  
 2 Docket Control, as a compliance item in this docket, a bill estimation tariff for Commission review  
 3 and approval with 90 days of the effective date of this Decision.

4 IT IS FURTHER ORDERED that this Decision shall become effective immediately.

5 BY ORDER OF THE ARIZONA CORPORATION COMMISSION.

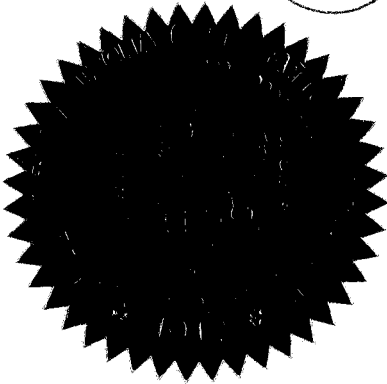
6  
 7   
 8 CHAIRMAN

  
 COMMISSIONER

9   
 10 COMMISSIONER

COMMISSIONER

  
 COMMISSIONER



IN WITNESS WHEREOF, I, ERNEST G. JOHNSON,  
 Executive Director of the Arizona Corporation Commission,  
 have hereunto set my hand and caused the official seal of the  
 Commission to be affixed at the Capitol, in the City of Phoenix,  
 this 21<sup>st</sup> day of August 2012.

18   
 19 ERNEST G. JOHNSON  
 20 EXECUTIVE DIRECTOR

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DISSENT 

DISSENT \_\_\_\_\_



1 SERVICE LIST FOR: MOHAVE ELECTRIC COOPERATIVE, INC.

2 DOCKET NO.: E-01750A-11-0136

3

4 Michael A. Curtis  
5 William P. Sullivan  
6 Melissa A. Parham  
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13 Janice Alward, Chief Counsel  
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15 ARIZONA CORPORATION COMMISSION  
16 1200 West Washington Street  
17 Phoenix, AZ 85007

18 Steve Olea, Director  
19 Utilities Division  
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21 1200 West Washington Street  
22 Phoenix, AZ 85007

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## MOHAVE ELECTRIC COOPERATIVE, INC.

COMPARISON OF EXISTING AND PROPOSED RATES - 2010 USAGE  
RESIDENTIAL SERVICE

kWh Usage	Monthly * Cust	Existing Rate	Staff Surrebital	Mohave Rejoinder	Change - \$		Change - %	
					Staff	Rejoinder	Staff	Rejoinder
Service Charge		\$9.50	\$13.50	\$16.50	\$4.00	\$7.00	42.11%	73.68%
Energy Charge, per kWh								
First 400		\$0.083190	\$0.093351	\$0.090076	\$0.010161	\$0.006886	12.21%	8.28%
Next 600		\$0.083190	\$0.108351	\$0.105076	\$0.025161	\$0.021886	30.25%	26.31%
Over 1,000		\$0.083190	\$0.123351	\$0.120076	\$0.040161	\$0.036886	48.28%	44.34%
PPCA Factor		\$0.023685	\$0.000000	\$0.000000	(\$0.023685)	(\$0.023685)	-100.00%	-100.00%
<b>Total Energy Charge plus PPCA</b>								
First 400		\$0.106875	\$0.093351	\$0.090076	(\$0.013524)	(\$0.016799)	-12.65%	-15.72%
Next 600		\$0.106875	\$0.108351	\$0.105076	\$0.001476	(\$0.001799)	1.38%	-1.68%
Over 1,000		\$0.106875	\$0.123351	\$0.120076	\$0.016476	\$0.013201	15.42%	12.35%
0	1,009	\$9.50	\$13.50	\$16.50	\$4.00	\$7.00	42.11%	73.68%
100	2,913	\$20.19	\$22.84	\$25.51	\$2.65	\$5.32	13.12%	26.35%
200	2,687	\$30.88	\$32.17	\$34.52	\$1.30	\$3.64	4.19%	11.79%
400	5,213	\$52.25	\$50.84	\$52.53	(\$1.41)	\$0.28	-2.70%	0.54%
800	9,166	\$95.00	\$94.18	\$94.56	(\$0.82)	(\$0.44)	-0.86%	-0.46%
1,000	3,212	\$116.38	\$115.85	\$115.58	(\$0.52)	(\$0.80)	-0.45%	-0.69%
2,000	7,881	\$223.25	\$239.20	\$235.65	\$15.95	\$12.40	7.15%	5.56%
3,000	2,466	\$330.13	\$362.55	\$355.73	\$32.43	\$25.60	9.82%	7.76%
5,000	738	\$543.88	\$609.26	\$595.88	\$65.38	\$52.01	12.02%	9.56%
8,000	54	\$864.50	\$979.31	\$956.11	\$114.81	\$91.61	13.28%	10.60%
Over	4							
860 Average		\$101.41	\$100.68	\$100.87	(\$0.73)	(\$0.55)	-0.72%	-0.54%
637 Median		\$77.58	\$76.52	\$77.43	(\$1.06)	(\$0.15)	-1.37%	-0.19%

\* Customers with usage from the previous block to this block

## EXHIBIT A

DOCKET NO. E-01750A-11-136

Mohave Rejoinder Schedule MWS-8

DECISION NO.

73352

**EXHIBIT B****ELECTRIC RATES****MOHAVE ELECTRIC COOPERATIVE, INCORPORATED**

1999 Arena Drive

Bullhead City, Arizona 86442

Filed By: J. Tyler Carlson

Title: CEO/General Manager

Effective Date: \_\_\_\_\_

**STANDARD OFFER TARIFF****OPTIONAL PREPAID RESIDENTIAL SERVICE  
SCHEDULE PRS****Availability**

In the Cooperative's Certificated Area to standard offer residential customers otherwise served under the Cooperative's Rate Schedule R where the Cooperative's facilities are of adequate capacity and the required phase and suitable voltage and necessary equipment are all in existence on and adjacent to the premises served.

**Application and Type of Service**

Applicable to qualifying services receiving alternating current, single phase, 60 Hertz, at available secondary voltages where service is provided through a single meter where the Customer elects this optional prepaid service. This rate is not available: (i) to critical (medical necessity), time of use or net metering customers, (ii) for three phase service or (iii) for customers on the Cooperative's Budget Payment Plan. This rate is not applicable to standby, supplementary or resale service.

**Monthly Rate**

RESIDENTIAL SERVICE PRS	Power Supply	Distribution Charges					Total Rate
		Metering	Meter Reading	Billing	Access	Total	
Customer Charge (\$/Customer/Day)		\$0.0999	\$0.0355	\$0.1660	\$0.2410	\$0.5424	\$0.5424
Energy Charge (\$/kWh) (Single Phase)							
First 400 kWh per month	\$0.095280				\$0.001093	\$0.001093	\$0.096373
Next 600 kWh per month	\$0.095280				\$0.011093	\$0.011093	\$0.106373
Over 1,000 kWh per month	\$0.095280				\$0.021093	\$0.021093	\$0.116373

**ELECTRIC RATES****Page 2****RESIDENTIAL SERVICE  
SCHEDULE PRS****Minimum Monthly Charge**

The greater of the following, not including any purchased power cost adjustor or any other adder approved by the Arizona Corporation Commission:

1. The Customer Charge
2. The amount specified in the written contract between the Cooperative and the Customer.

**Billing Adjustments and Adders**

This rate is subject to all billing adjustments outlined in Schedule A.

**Other Charges**

Other charges may be applicable subject to approval by the Arizona Corporation Commission.

**Rules and Regulations**

The Rules and Regulations of the Cooperative as on file with the Arizona Corporation Commission shall apply to Customers provided service under this Service Schedule where not expressly inconsistent with this Service Schedule.

**Prepaid Service – Express Conditions**

1. Application for Optional Prepaid Service: To receive optional prepaid service the Customer shall:
  - a. Be a standard service residential customer (including providing a completed Residential Membership Application) meeting the requirements set forth above under Availability and Application and Type of Service.
  - b. Execute a Prepaid Metering Agreement requesting this optional service.
  - c. Pay any outstanding balance or pay an agreed upon portion of the outstanding balance and enter into a payment agreement pursuant to Subsection 110-G of the Cooperative's rules and regulations.
  - d. Pay the Cooperative's Establishment Fee and an agreed upon prepay amount of not less than \$ 40.00 upon subscribing to the prepaid metering option.
  - e. Have voice message, e-mail or text message capability in order to receive the messages and low balance alerts. Customers must have at least two reliable methods of receiving messages and low balance alerts, but one can be through a backup contact person.
2. Customer Deposits:
  - a. No additional customer deposit will be required. Prepayments are not deemed deposits and are not eligible for interest pursuant to Subsection 102-C 3.d. of the Cooperative's rules and regulations.
  - b. Deposits of an existing Customer electing to receive optional prepaid service under this rate schedule shall first be applied against any outstanding bill. Once the remaining deposit is subject to refund pursuant to Subsection 102-C 3.c. of the Cooperative's rules and regulations, any balance will be applied to their prepaid account.

**ELECTRIC RATES****Page 3****RESIDENTIAL SERVICE  
SCHEDULE PRS****3. Account Information and Billing:**

- a. Monthly statements will still be generated for service provided under this optional prepaid service rate schedule covering monthly usage during the billing cycle.
- b. Account information relating to a customer's remaining prepaid balance can be accessed through:
  - 1) The Cooperative's business offices during normal business hours.
  - 2) Integrated Voice Recognition (IVR) at 1-877-371-9379 (select Option #1).
  - 3) On line at [www.mohaveelectric.com](http://www.mohaveelectric.com) 24 hours a day.
- c. The Cooperative shall update the remaining prepaid balance at least once each business day, subject to system operational difficulties.
- d. Historical average daily usage information will be available on line or at the Cooperative's business offices. Actual daily usage can only be secured through the Cooperative's business offices.
- e. The billing information made available on line and through the Cooperative's business office shall contain the minimum bill information set forth in Subsection 110-A of the Cooperative's rules and regulations, except that daily billed kWh usage shall only be available through the Cooperative's business offices and no kW demand will be provided.

**4. Payments:** The residential Customer may make subsequent prepayments as often as desired by making payments in person at the Cooperative's office, or by mailed check; or any time, including after hours, by utilization of the Cooperative's electronic payment system found on the Cooperative's website, or the Cooperative's IVR remote payment system at no cost in fees to the residential Customer. The website and IVR payment systems require a minimum payment of \$5.00.

**5. Disconnection:** Disconnection of prepaid service shall be made when the Customer's prepaid balance reaches zero, except that no disconnection shall occur:

- a. When the local weather forecast, as predicted by the National Oceanographic and Administration Service, indicates that the temperature will not exceed 32 degrees Fahrenheit for the next day's forecast. The ACC may determine that other weather conditions are especially dangerous to health as the need arises.
- b. Outside normal business hours. Normal business hours are Monday – Friday 8:00 a.m. to 5:00 p.m., excluding Cooperative recognized holidays: New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, Day after Thanksgiving and Christmas. Usually when falling on Saturday, the Friday before is treated as the holiday and when falling on Sunday, the Monday after is treated as the holiday. The actual dates of all holidays for the calendar year will be posted on the Cooperative's website.

**6. Notice:** In lieu of written notice of disconnect pursuant to Subsection 111-C of the Cooperative's rules and regulations, the Cooperative shall notify the Customer by electronic mail, where provided, and by interactive voice response phone call at the number provided by the Customer reminding the residential Customer that additional prepaid funds are necessary as the current prepaid amount becomes nearly consumed.

**ELECTRIC RATES****Page 4****RESIDENTIAL SERVICE  
SCHEDULE PRS**

- 
- a. Notice shall be generated daily once the Customer's credit balance is less than:
    - 1) \$25.00 from October 1 to February 28 or 29
    - 2) \$35.00 from March 1 to June 30
    - 3) \$50.00 from July 1 to September 30.
  7. Re-Establishing Disconnected Service:
    - a. Should the residential Customer neglect to make payment prior to disconnection, an additional payment to restore the prepaid balance to not less than \$ 20.00 is necessary to re-establish service. Payment may be made through any of the means described above in paragraph (4). Service will be restored no later than the following business day. For the Customer's safety and to protect property, the Customer must then push the reset button at the meter to re-establish service.
    - b. An account will be closed if the disconnected service has not been re-established before the close of the then current monthly billing cycle for the service location, but not less than 10 days after disconnection. The Cooperative (i) will notify the Customer the account is closed in the same manner the Customer received messages and alerts of a low balance and (ii) will also mail a final bill for all unpaid charges to the Customer's last known address on file with the Cooperative. In addition to satisfying paragraph 7a, the Customer must pay an Establishment Fee to re-establish a closed account.
  8. Opting In or Out of Prepaid Service:
    - a. Any residential Customer of the Cooperative may opt-in or opt-out of prepaid metering service at any time; however the residential customer may change rate options no more than two (2) times in a calendar year, including the initial election of the prepaid metering option.
    - b. Any residential Customer who opts-out of this rate and continues service with the Cooperative will be required to:
      - 1) Pay an Establishment Fee, and
      - 2) Re-establish credit with the Cooperative as set forth in Subsection 102-E of the Cooperative's rules and regulations; provided, however, utilization of the prepaid metering option for a period of twelve (12) consecutive months without disconnection of service shall have demonstrated the establishment, or re-establishment of satisfactory credit with the Cooperative and shall not be required to post a deposit for continuing service.
    - c. Any prepaid balance that remains at the time of transfer to another rate schedule will be applied toward the Establishment Fee, then toward the deposit, then to any balance remaining under a payment agreement and finally, if any balance still remains, as a credit on the first billing.

**Contract**

If service is requested in the Cooperative's Certificated Area and the provision outlined in the Availability Clause of this rate tariff cannot be met, it will be necessary for the Cooperative and customer to mutually agree, in a written contract, on the conditions under which service will be made available.

### Mohave Electric Cooperative (MEC) Prepaid Service Agreement

The Prepaid Service Program (the "Plan") is an optional program approved by the Arizona Corporation Commission for MEC's qualifying standard offer, single phase residential customers who desire to alleviate the financial impact of posting a deposit or otherwise securing their service account. It is not available to time-of-use, net metering or critical (medical necessity) customers or for those participating in the Budget Payment Plan. The Plan is designed to give the member more control over their electric usage and more opportunities to reduce their electricity costs. Some of the plan's features that are designed to help members include:

- No requirement for a security deposit
- Smaller, more frequent payments can be made on the account
- Avoid late fees
- Monitor usage online or by contacting MEC business offices.

Payments can be made on the Plan utilizing any of MEC's payment systems, including online payments, electronic telephone payments (1-877-371-9379, select Option#1) and payments at our Customer Service office during normal MEC business hours. The Plan offers the members access to their current and historical consumption to assist them in managing their prepaid service. Once a member has registered online, this history can be accessed and their contact information updated with a secured member login at MEC's member website. Alternatively, the Customer can contact the Cooperative's business offices during normal business hours. Daily usage information is only available through MEC's business offices. The information is updated once prior to the start of each business day.

Mohave's Prepaid Service Program is available to qualifying residential customers where Mohave has installed the new AMI digital metering technology and can connect and disconnect your service remotely so no serviceman is needed to be dispatched. However, to protect property and the Customer's safety, the Customer must push a reset button at the meter to re-establish service.

\_\_\_\_\_ Electric service is subject to immediate disconnection any time during normal business hours (M-F, 8  
Initial a.m. to 5p.m., excluding holidays\*) if an account does not have a credit (prepaid) balance, except where the temperature will not exceed 32 degrees Fahrenheit for the next day's forecast, or other weather conditions as determined by the Arizona Corporation Commission.

- Members can access their balance on the MEC website, telephonically through the MEC integrated voice recognition system (1-877-371-9379, select Option#1) or, during normal business hours, by calling MEC business offices. The balance information is updated before the start of each business day.
- The member will receive recorded voice warning notices of low prepaid balances on their account once the balance is less than pre-determined dollar limits that vary seasonally as set forth in its PRS Tariff (currently \$25 Oct. - Feb.; \$35 March - June; \$50 July - Sept.). Warnings will be provided by email, phone or text message to the phone numbers and email addresses designated by the member. These messages will be sent daily until the prepaid balance is exhausted. Other methods of notification may be used with the consent of MEC and the customer.
- The prepaid account will be disconnected at the start of the first business day after the account no longer has a prepaid balance. It is the member's responsibility to make adequate payment to avoid disconnection, and to bring their account back to a prepaid balance of at least \$20.00 after disconnection in order to have service restored. Upon the member re-establishing the minimum prepaid balance, service will be restored no later than the following business day, subject to the member pushing the reset button at the meter and operational constraints.
- The account will be closed after disconnection if the minimum prepaid account balance has not been re-established by the end of the billing cycle applicable to the service location, but not less than 10 days after disconnection. If the account is closed MEC's Establishment Fee will also need to be paid to re-establish prepaid service.

Prepaid accounts will be administered in accordance with MEC's Rules and Regulations and Tariffs, approved by the Arizona Corporation Commission, that apply to Prepaid Service (Subsection 102-I and Rate Schedule PRS), as amended from time to time.

- Member authorizes MEC to charge their prepaid account for electric services rendered in accordance with the Rules and Regulations and Tariffs of the Cooperative.
- Member has the ability to access their consumption history as described above and it is their responsibility to utilize the balance information and their consumption in order to maintain a prepaid balance in their account at all times to avoid disconnection of service.
- Member is responsible for maintaining accurate contact information including telephone number, email address and mailing address at all times.
- Member *Holds Harmless MEC, its directors, officers, employee and agents* for damages resulting from disconnecting service in accordance with approved tariffs and rules and regulations of the Cooperative.

\* New Year's Day, President's Day, Memorial Day, Independence Day, Labor Day, Thanksgiving, Day after Thanksgiving and Christmas. Usually when falling on Saturday, the Friday before is treated as the holiday and when falling on Sunday, the Monday after is treated as the holiday. The current year's holidays are listed on the Cooperative's website.

I have carefully read and I understand the terms within the Mohave Prepaid Service Agreement and understand the difference between prepaid service and standard residential (post paid) service. I am requesting that MEC establish prepaid electric service for my account.

Account Number \_\_\_\_\_

Member Signature \_\_\_\_\_ Date \_\_\_\_\_

Member Signature \_\_\_\_\_ Date \_\_\_\_\_

Contact Mailing Address \_\_\_\_\_

Must provide at least two, but no more than four: Identify order preference (1 - 4)

(Indicate Name of any person whose number is being provided as a backup)

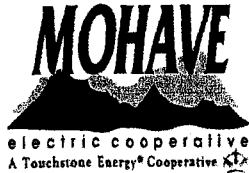
Contact Email Address(es) \_\_\_\_\_

Contact Telephone Number(s) \_\_\_\_\_

Text Message Number(s) \_\_\_\_\_



## EXHIBIT C



## Mohave Prepay

### An Optional Pay-As-You-Go Plan

- *Eliminate deposits and monthly bills*
- *Buy electricity at your convenience*
- *Customize a payment schedule*
- *Monitor your consumption*

#### What is Mohave Prepay?

Mohave Prepay is an optional pay-as-you-go plan under an Arizona Corporation Commission approved tariff that allows qualified Residential Members to prepay for electricity when you want and in the amounts you want. Instead of receiving a monthly bill for electric service provided,, usage is calculated daily and payments made in advance. Mohave Prepay members never pay a late charge, disconnect fee, or reconnect fee so long as their prepay account is not closed. New Prepay customers pay the standard \$5 membership fee (if not previously paid), a \$40 establishment fee and establish a prepaid account balance of at least \$40.

#### Is Mohave Prepay the right choice for me?

If it would be easier for you to receive electric service without posting a deposit and to make smaller more frequent payments rather than one larger payment each month, Mohave Prepay may be for you. Purchasing power is quick and easy, even on weekends and holidays through Mohave's automated phone and internet remote bill pay service.

Mohave Prepay is only available to qualified Mohave's residential customers. *It is not available if you are enrolled in Budget Billing, Time of Use, Net Metering, have 3-phase service or have a Critical Account (dependent on electric service for health reasons).* As a Prepay Customer you must be able to physically reach your meter to press a reconnect button, receive and understand messages regarding your balance and to timely make prepayments by phone, internet or at a Mohave office. This service is not intended for members with physical infirmities, that are housebound, or that cannot readily receive messages and make payments over the phone or internet.

#### What if my Mohave Prepay account runs low?

You will receive a low balance notice by voice mail, e-mail or text message once your balance reaches a pre-determined level (\$25, \$35, or \$50 depending on the season). This will give you time to purchase more power before the meter stops. If you do not purchase more power, the meter will stop and the power will turn off during Mohave's normal business hours (Monday – Friday 8 a.m. – 5 p.m., excluding Mohave recognized holidays). However, your power will be re-energized within 2 to 24 hours once a payment is made bringing your prepaid balance to \$20 or more. For the safety of you and your property, you must then hit a reset button at your meter to restore electric service to your residence.

#### How do I check my account balance or make a payment?

By phone: 877-371-9379 (select Option #1) – any time or day

Online: [www.mohaveelectric.com](http://www.mohaveelectric.com) – any time or day

At our Office: 928 Hancock Road, Bullhead City, AZ -Monday-Friday 8am-5pm, except Mohave recognized holidays

#### How do I sign up for Mohave Prepay?

You will need to execute a Prepay Service Agreement. For more information call 928-763-1100 or visit our Member Service Office.

**TERMS AND CONDITIONS OF MOHAVE PREPAY MAY CHANGE AT ANY TIME AS APPROVED BY MOHAVE AND THE ARIZONA CORPORATION COMMISSION.**

Rvsd 5-30-12